86-590

No. ____

Supreme Court, U.S.
FILED
OCT. 10 1986
JOSEPH F. SPANIOL, JR.
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1986

UNIVERSAL CITY STUDIOS, INC.,

Petitioner,

—against—

NINTENDO CO., LTD. AND NINTENDO OF AMERICA, INC.,

Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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56 pp

QUESTIONS PRESENTED

The Court of Appeals for the Second Circuit upheld an attorney's fee award against petitioner of more than $1.1 million, and hundreds of thousands of dollars more in purported state law punitive damages. The sole premise for these sanctions was petitioner's assertion of a federal statutory claim of trademark infringement. The claim was asserted on advice of counsel, and was supported by substantial prior authority—including a prior federal court judgment expressly adjudicating the rights of petitioner's predecessor-in-interest.

The massive award of sanctions was upheld by the Second Circuit without a threshold determination that petitioner's legal position lacked arguable legal merit, or was frivolous, or without foundation. Nor, despite the sheer magnitude of the fee award, was there any determination that the amount of the fee was reasonable; indeed, respondents offered no evidence of reasonableness. The purported state law damage award was upheld only because of an apparently deliberate refusal by the Second Circuit to follow, or even consider, the most recent decision by the highest court of New York declaring applicable state law.

The questions presented by this petition are these:

1. Whether, before awarding attorney's fees to a prevailing defendant, a federal court must specifically determine that the plaintiff's federal claim was frivolous or without foundation, as many of the Circuits have required, or whether the fees of a prevailing defendant can be shifted to the plaintiff without such a determination, as the Second Circuit permitted below?

2. Whether a federal court can award more than $1.1 million in attorney's fees to a prevailing defendant without making any determination, or hearing any evidence, that the amount of the award is reasonable?

3. Whether a federal court can impose purported state law tort damages, including punitive damages, while refusing even to consider the most recent, and seemingly controlling, ruling of the highest court of the state concerning applicable state law?

Parties to the Proceeding

Petitioner Universal City Studios, Inc. ("Universal"), a wholly-owned subsidiary of MCA Inc., a Delaware corporation, was appellant-cross appellee in the court below.* Respondents Nintendo Co., Ltd., a Japanese corporation, and its wholly-owned subsidiary, Nintendo of America, Inc. (collectively, "Nintendo"), were appellees-cross appellants in the court below.

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* The following list of parents, subsidiaries and affiliates is supplied in compliance with Rule 28.1 of this Court's rules:

MCA Inc.
MCA Videodisc, Inc.
MCA Home Video, Inc.
MCA New Ventures, Inc.
MCA Records, Inc.
MCA Distributing Corp.
MCA Television Ltd.
Merchandising Corp. of America, Inc.
The Putnam Publishing Group, Inc.
Berkley Publishing Corp.
Jove Publications, Inc.
Coward-McCann, Inc.
Grosset & Dunlap, Inc.
Richard Marek, Publishers, Inc.
Cineplex Odeon Corp.
LJN Toys, Ltd.
Spencer Gifts, Inc.
Womphopper's, Inc.
Yosemite Park and Curry Co.

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ON WRIT OF CERTIORARI TO THE UNITED STATES
COURT OF APPEALS FOR THE SECOND CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

Petitioner Universal respectfully prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Second Circuit entered in the above-entitled proceeding on July 15, 1986.

Opinions Below

The Court of Appeals opinion which gives rise to this petition is reported at 797 F.2d 70 (2d Cir. 1986), and reprinted at pages A1-16 of the appendix hereto.[1] The judgment of the Court of Appeals is reprinted at A114-15. The District Court opinion is reported at 615 F. Supp. 838 (S.D.N.Y. 1985), A65-113. Earlier opinions in this case are reported at 578 F.

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1 References to "A____" are to the separately-bound appendix to this petition.

Supp. 911 (S.D.N.Y. 1983), A17-50, *aff'd on appeal pursuant to Rule 54(b)*, 746 F.2d 112 (2d Cir. 1984), A51-64.

Jurisdiction of this Court

Jurisdiction over this petition is conferred upon this Court by 28 U.S.C. § 1254(1).

STATEMENT OF THE CASE

A. Overview of the Case.

This petition seeks review of rulings by the Court of Appeals for the Second Circuit which subjected Universal—and expose every federal court litigant—to capricious, retaliatory litigation sanctions, unlimited as to amount. The Second Circuit's decision invites a wholesale increase in "sanctions" litigation in the federal courts, even where an unsuccessful claim cannot be labeled frivolous or without foundation.

Universal was subjected to more than $1.5 *million* in attorney's fees and state law tort damages, including punitive damages, for asserting Lanham Act claims of trademark violation. Universal had asserted trademark rights in the name and character of the famous King Kong gorilla. It did so only after receiving the advice of experienced trademark counsel that it "was on firm ground to bring this complaint and this action." Universal's claims were premised on a prior federal court judgment declaring that its predecessor-in-interest owned "all rights in and to" the name and character of King Kong. The counsel whose advice it followed was fully familiar with the complex litigation in which the prior judgment had been entered. The sole basis for the award was Universal's assertion of rights, not any abuse of discovery or other post-complaint misconduct.

The Second Circuit evidently took it for granted that the federal courts should be conducting extensive collateral proceedings over "sanctions" even if it is not first specifically

found that a claim was frivolous or groundless. The Second Circuit also evidently assumed that a federal court can award every dollar in fees claimed by a prevailing defendant without determining that the amounts were in any sense reasonable—notwithstanding that the statute which supposedly permitted the award (§ 35 of the Lanham Act) authorizes the shifting of fees only in "exceptional" cases, and then only in a "reasonable" amount.

The decision below merits this Court's scrutiny because it is part of a rapidly expanding area of federal court litigation—what may generically be described as "sanctions" litigation—which the rulings below threaten to expand beyond any conceivable purpose. This proliferating "sanctions" litigation arises under, *inter alia*, the 1983 amendments to Rule 11 of the Federal Rules of Civil Procedure; the so-called "bad faith" exception to the "American Rule" concerning attorney's fees, first recognized by this Court in *Vaughan* v. *Atkinson*, 369 U.S. 527 (1962); and, as in this case, certain of the fee award statutes enacted by Congress. *See, e.g.*, ABA Section of Litigation, *Sanctions: Rule 11 and Other Powers* 3 (1986); S. Kassim, *An Empirical Study of Rule 11 Sanctions* 6 (Federal Judicial Center 1985); *The New York Times*, Oct. 2, 1986, at D1, col. 3.

This Court has approved the imposition of sanctions where a claim was "frivolous, unreasonable, or without foundation," while cautioning the lower courts against imposing sanctions based on "hindsight logic." *Christiansburg Garment Co.* v. *EEOC*, 434 U.S. 412, 421-22 (1978). Members of this Court have recognized that "a great deal of litigation" is being spawned by attempts to shift attorney's fees. *See, e.g.*, *Boeing Co.* v. *Van Gemert*, 444 U.S. 472, 483 (1980) (Rehnquist, J., dissenting). However, this Court has never had occasion to decide whether or not a specific determination of frivolousness or groundlessness must precede the imposition of sanctions.

In the absence of such a ruling from this Court, some of the lower courts have required a prevailing defendant to establish

as a threshold matter that his adversary's case was frivolous or groundless before imposing sanctions, and have carefully scrutinized such claims. Some of the lower courts have also closely scrutinized the *amount* of fee awards, consistent with the principles announced by this Court in *Hensley* v. *Eckerhart*, 461 U.S. 424 (1983).

By contrast, the Second Circuit's decision in this case—because it was *not* based on a specific finding of frivolousness, and did *not* find the fee award reasonable—invites a second trial on "sanctions" in *every* case. If Universal can be severely sanctioned for not anticipating that a prior federal court judgment which expressly awarded "*all* rights in and to" King Kong in fact awarded "*no* rights"—which is what the decision below boils down to—a substantial increase in "sanctions" litigation is inevitable. Moreover, the sheer magnitude of the windfall financial bonanza which the Second Circuit permitted—most of it under a statute expressly limited to "reasonable" fees—encourages every prevailing litigant to "take a flyer" on a "sanctions" application. The resulting increase in collateral "sanctions" litigation would be wholly unjustifiable.

B. Factual Background.

The underlying litigation herein concerns the valuable commercial right to control trademark exploitation of the famous King Kong gorilla. The litigation turned on the interrelationship of copyright and trademark principles as applied to a prior federal court judgment in favor of Universal's predecessor-in-interest. Universal was severely sanctioned for asserting—on the advice of counsel fully familiar with the litigation leading to the prior judgment—that, under its terms, Universal could claim trademark rights in the name and character of King Kong. As will be explained, the Second Circuit's affirmance of sanctions rested on legal conclusions which were contrary to substantial authority, including the District Court in this very case; and which had the net effect of rendering the core provisions of the prior federal court judgment a nullity.

1. The Cooper Judgment.

The prior federal court judgment (the "Cooper Judgment") was first entered in 1976 by the United States District Court for the Central District of California (the "California Federal Court"). A116-20. It resolved a long-standing dispute between Major Richard Cooper and RKO General, Inc. ("RKO") over the ownership of the King Kong property. Universal sued below as Major Cooper's transferee and successor-in-interest under the Cooper Judgment.

It was Major Cooper's father who created the name, character and story of King Kong. The senior Cooper had licensed RKO to make the famous 1933 movie, "King Kong." In purported reliance on this license, RKO went on to exploit King Kong by marketing King Kong toys and other King Kong products. A16-37.

The Cooper Judgment resolved in Cooper's favor his contention that these marketing activities were unauthorized by the license. A116-20, 126, 128, 133-37. The Judgment declared that Cooper, not RKO, owned "all rights in and to the use of the name, character, and story 'King Kong.' " A117. The Judgment declared that, to the extent RKO had exploited King Kong other than in making its licensed movie, it had done so as a constructive trustee for Major Cooper. A118. It expressly directed RKO to convey to Cooper all outstanding product licenses, and to account to him for past profits. A118-19.

The Cooper Judgment reserved to RKO only the copyright in its 1933 movie (and in a little-known 1934 sequel). The Second Circuit in this case ultimately held that RKO's copyrighted movie, and the copyrighted "re-make" released by Dino De Laurentiis Corp. in 1976, "were irreconcilable with the existence of any Universal trademark rights in King Kong," and that Universal "must have known" this. 797 F.2d at 76; A9-10.

However, the Second Circuit cited no legal authority except the statutory definition of "trademark" in § 45 of the Lanham

Act, 15 U.S.C. § 1127. It cited no authority holding or suggesting that § 45, which specifically recognizes that a "name" or "symbol" can constitute a trademark, means that a claim of trademark in a popular name or character is precluded by copyrighted movies.[2] To Universal's knowledge—then and now—there is no such authority, whatever Universal "must have known."[3]

The Second Circuit also read the Cooper Judgment as determining that the senior Cooper's original King Kong novel had fallen into the public domain. 797 F.2d at 73; A3-5. This is a copyright term of art meaning that the novel had lost

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2 The text of § 45 is found at A179 of the appendix hereto.

3 The Second Circuit's view of the relationship between copyright and trademark is contrary to substantial authority. Thus:

1. There are "fundamental differences" between the purpose and scope of copyright and trademark. *Sony Corp.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984). Copyright protects original works for limited terms; trademark protects names or symbols under which products are sold for indefinite terms. *The Trade-Mark Cases*, 100 U.S. 82, 93-94 (1879); 1 J. McCarthy, *Trademarks and Unfair Competition* § 6:1, at 147-48 (2d ed. 1984).

2. Fictional characters, such as King Kong, may be entitled to separate protection (1) as copyrightable original works and (2)—wholly apart from copyright—as trademarks that serve to identify a product with a single source of origin. *See, e.g., Silverman* v. *CBS Inc.*, 632 F. Supp. 1344, 1350 (S.D.N.Y. 1986); *Frederick Warne & Co.* v. *Book Sales, Inc.*, 481 F. Supp. 1191, 1196-97 (S.D.N.Y. 1979).

3. A motion picture license does *not* give the licensee any further interest in the name or character being licensed, or the right to exclude the licensor from exploiting it. *E.g., Warner Bros. Pictures* v. *Columbia Broadcasting System*, 216 F.2d 945 (9th Cir. 1954), *cert. denied*, 348 U.S. 971 (1955). Motion picture licenses do not preclude the licensor from being the "single source" which is required for trademark. *See, e.g., Edgar Rice Burroughs, Inc.* v. *Manns Theatres*, 195 U.S.P.Q. 159 (C.D. Cal. 1976); 15 U.S.C. § 1055. Indeed, this is precisely what the Cooper Judgment held concerning RKO and King Kong.

copyright protection because the original copyright certificate was not properly renewed under the Copyright Act of 1909. The Second Circuit held that there is a fatal inconsistency between public domain status of the novel—*i.e.*, its loss of *copyright* protection—and a claim of *trademark* under the Cooper Judgment. *Id.* at 78; A13.

While elsewhere stating that this conclusion was "clear" (*id.* at 73, A5), the Second Circuit cited no authority for it anywhere. Yet the District Court had ruled precisely to the contrary, recognizing that "even words that are in the public domain may possess trademark significance." 578 F. Supp. 911, 919, 926 n.6; A17,29, 42 n.6. Remarkable as it may seem, the Second Circuit did not even mention this District Court ruling, or the authority on which it was based.[4]

2. The Vacated Universal Judgment.

Apart from its confusion of copyright and trademark principles, the Second Circuit's highly restrictive construction of the Cooper Judgment was based on a misreading of the California Federal Court record. That misreading, and its supposed bearing on this case, were announced for the first time when the Second Circuit affirmed the sanctions award. Once again, the Second Circuit ruled contrary to a ruling of the District Court. Once again, the District Court's contrary ruling was not mentioned by the Second Circuit.

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4 Prior authority on this public domain/trademark issue supports the District Court and Universal—not the Second Circuit and Nintendo. Indeed, every lower court case of which we are aware is contrary to the Second Circuit: "Simply stated, the expiration of a copyright or a patent does not bar an action under the Lanham Act for trademark infringement." *Tempo Communications, Inc.* v. *Columbian Art Works, Inc.*, 223 U.S.P.Q. 721 (N.D. Ill. 1983), *certification of interlocutory appeal denied*, No. 80 C 1709 (N.D. Ill. Oct. 14,1983) (available on LEXIS). *Accord Application of Mogen David Wine Corp.*, 328 F.2d 925, 930 (C.C.P.A. 1964); *Frederick Warne & Co.* v. *Book Sales Inc.*, 481 F. Supp. 1191, 1196-97 (S.D.N.Y. 1979). It is simply a "non-sequitur" to equate public domain status for copyright purposes with a lack of trademark status. 1 J. McCarthy, *supra*, *Trademarks and Unfair Competition* § 6:1, at 148.

The California litigation had begun when Universal sued RKO, claiming that it, not Dino De Laurentiis, was entitled to produce a "re-make" of "King Kong." These claims were decided in Universal's favor, and gave rise to a judgment (the "Universal Judgment"). A141-61. However, RKO, De Laurentiis and Universal ultimately settled all issues among them. Universal permitted De Laurentiis to make its movie, and Universal received a substantial share of its profits. Upon being apprised of the settlement, the Court of Appeals for the Ninth Circuit vacated the Universal and Cooper Judgments. A162-65. The Cooper Judgment was later reinstated by the California Federal Court, in 1981; however, the Universal Judgment was never reinstated. A116-20, 138-40.

The District Court in this case rejected a variety of claims by Nintendo based on the vacated Universal Judgment, including the claim that that judgment "survived" in the Cooper Judgment. 578 F. Supp. 911, 919-21; A28-32. The Second Circuit, however, held that a vacated finding of fact which accompanied the vacated Universal Judgment defeated any claim of trademark under the separate, *un*vacated Cooper Judgment.

According to the Second Circuit—in a "construction" of the Cooper Judgment first announced in affirming the award of sanctions—"Cooper plainly did not obtain any trademark rights in his judgment against RKO, since the California district court specifically found that King Kong had no secondary meaning." 797 F.2d at 76; A11.[5] Based on this statement of what the California Federal Court "specifically found," the Second Circuit held that, "If anyone knew what the law was on this point"—*i.e.*, on the point of secondary meaning—"under the facts of this case, it was Universal"; and that, despite the

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5 "Secondary meaning" is a trademark term of art meaning identification of a trademark with a single source of origin for the goods or services sold under the mark. The consuming public does not have to know the identity of the source. It can be "anonymous." 15 U.S.C. § 1127; *Fleischmann Distilling Corp.* v. *Maier Brewing Co.*, 314 F.2d 149, 155 (9th Cir.), *cert. denied*, 374 U.S. 830 (1963).

broad "all rights" language of the Cooper Judgment, Cooper owned only "[p]erhaps . . . some undefined 'merchandising rights.' " *Id.* at 75, 76; A9, 11.

But the California Federal Court demonstrably had made *no* finding that King Kong could not have secondary meaning. Its *only* "secondary meaning" finding was that RKO had offered no evidence on the issue: "There is *no evidence* that the title 'King Kong' has a secondary meaning by which the public [in 1976] identifies such title with RKO or the Motion Picture." A159.

Hence, *all* the California Court had ever found was that RKO had failed to *prove* that there was secondary meaning, in 1976, in the title of its 1933 movie. That finding, later vacated, did not even purport to decide what secondary meaning there might be in the King Kong name or character, then or thereafter. It did not decide what ruling might result from actual contested litigation of the secondary meaning issue. Nor, since it was made in 1976, could it have decided what secondary meaning might have been generated *after* 1976 by the highly successful release of the Dino De Laurentiis re-make in that year, and the extensive trademark licensing of King Kong products in 1976 and thereafter. De Laurentiis acknowledged that Universal was "fully entitled to exploit [that] goodwill." A169.

Accordingly, there was no basis for the Second Circuit's statements that, when the *present* case arose, in *1982*, Universal or its counsel "knew" from this vacated finding that "the law" was that the King Kong name and character could not have secondary meaning. To the contrary, given what the California Court had actually done—*i.e.*, treated "secondary meaning" as a matter of evidentiary dispute—Universal "knew" no more than that secondary meaning was a factual matter, which a finder of fact might resolve one way or another.[6]

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6 It is familiar law that secondary meaning is an intensely factual question turning on factual issues of public perceptions and consumer

3. Universal's Purchase of Cooper's Rights.

Universal purchased all of Major Cooper's rights under the Cooper Judgment shortly after it was entered. Universal paid more than $200,000 for these rights.

Thereafter, Universal was consistently recognized by all members of the entertainment industry knowledgeable about King Kong as having the *sole* right to license *any* commercial exploitation of King Kong, including trademark uses. For example, Paramount Pictures Corp., which had been Dino De Laurentiis' trademark licensing agent, recognized Universal as "*the* licensing source for products and services sold under the King Kong name and character . . . [emphasis added]." A176. Notwithstanding the Second Circuit's view that Universal trademark rights were "irreconcilable with" RKO's rights, RKO too recognized Universal's rights. Indeed, RKO actually confirmed to Universal that Universal's trademark claims against Nintendo—*i.e.*, the claims involved in this very action—did not invade RKO's retained rights. A177.[7]

Contrary to statements by the Second Circuit on the point, 797 F.2d at 73, A5, Universal conducted itself as a trademark proprietor following its purchase of Cooper's rights, consistent with the industry-wide understanding that it was "*the* licensing source." The uncontradicted record showed that Universal issued King Kong trademark licenses, warned others against

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practices. *See, e.g., Zatarains, Inc.* v. *Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 794-96 (5th Cir. 1983); *Levi Strauss & Co.* v. *Blue Bell, Inc.* 632 F.2d 817, 821 (9th Cir. 1980); 3 R. Callman, *The Law of Unfair Competition, Trademarks & Monopolies* § 19.27 (4th ed. 1983). Secondary meaning may exist at one time or in one area, and not in another. *See, e.g., Truck Equipment Service Co.* v. *Fruehauf Corp.*, 536 F.2d 1210, 1221-22 (8th Cir.), *cert. denied*, 429 U.S. 861 (1976); *see generally* 1 & 2 J. McCarthy, *supra*, *Trademarks and Unfair Competition* chs. 17, 26.

7 To be sure, Universal had to respect RKO's (and Dino De Laurentiis') copyright rights. But neither RKO nor De Laurentiis regarded Universal's trademark, or its claims against Nintendo, as "irreconcilable with" their copyrights. A177, 169.

licensing uses of King Kong, and invested substantial sums in a proposed "King Kong" motion picture, which would have generated still additional trademark licensing revenues. It also spent millions of dollars to build a "King Kong" attraction at its Universal Studio Tour amusement park in Los Angeles.[8]

4. "Donkey Kong."

Beginning in 1981, Nintendo manufactured and licensed a videogame which depicted a giant gorilla on top of a large building holding a heroine whom a rescuer tries to reach. Nintendo called its videogame, and the gorilla character which was its star, "Donkey Kong." The gorilla character, the story context in which it was used, and the name "Kong" all obviously evoked King Kong.[9] Nonetheless, Nintendo marketed and licensed "Donkey Kong" without attempting to obtain Major Cooper's or Universal's permission.

When Universal learned of "Donkey Kong," it consulted its regular intellectual property counsel, Stephen A. Kroft, as to whether the game violated Universal's rights. Kroft had represented Universal in the California Federal Court litigation which produced the Cooper Judgment and the vacated Universal Judgment. He was fully familiar with the complex litigation context in which the Cooper Judgment had been entered. Kroft advised Universal that "it was on firm ground" to assert Lanham Act claims against "Donkey Kong."

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8 Contrary to another statement by the Second Circuit, to the effect that Universal never created an "image of King Kong" different from the movie images, 797 F.2d at 76, A10, Universal's Studio Tour attraction—a tram car ride past a gigantic articulated figure of the ape—obviously *did* involve Universal's creation of its own "image of King Kong." Universal's proposed motion picture—which was ultimately scrapped when its producer was incapacitated by a serious heart attack—would also have involved another "image of King Kong."

9 Cooper's original character was named "Kong." He was called "*King* Kong" because of the majestic qualities suggested by the story. There is no donkey in "Donkey Kong."

Before bringing suit, Universal attempted to settle the "Donkey Kong" matter with Nintendo and with Nintendo's most important licensee, Coleco Industries, Inc. ("Coleco"). Coleco, advised by its own experienced trademark counsel, acknowledged Universal's claim of King Kong rights by agreeing to pay a substantial royalty in return for Universal's covenant not to bring suit against it. Nintendo, however, did not settle.[10]

5. Universal's Lanham Act Litigation.

Universal brought suit against Nintendo in the United States District Court for the Southern District of New York. It alleged that it held a valid trademark in the name King Kong, and variants thereof, in conjunction with the symbol of a gigantic ape. It alleged that "Donkey Kong" was trading on the goodwill associated with this name and character in violation of § 43(a) of the Lanham Act (and analogous state law). Universal alleged the derivation of its rights through the prior Cooper Judgment, and its agreement with RKO settling the California Court litigation between them.[11]

After it sued Nintendo, Universal continued to pursue settlements of its "Donkey Kong" claims, sometimes successfully, sometimes not. The Second Circuit ultimately held that this conduct was "tortious" under New York law, and established that Universal was in "bad faith," because Universal did not

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10 Coleco later sought to capitalize on Nintendo's litigation success against Universal by bringing an action to undo its settlement agreement. *Coleco Industries, Inc.* v. *Universal City Studios, Inc.* 84 Civ. 2596 (S.D.N.Y., filed April 12, 1984). That action is presently pending in the District Court.

11 Given the Second Circuit's focus on RKO's copyright rights, and on the "public domain" status of Cooper's original novel, it should also be emphasized that Universal did *not* allege any infringement of *copyright*—its own, or Cooper's, or RKO's or anyone else's. Federal jurisdiction was based on the Lanham Act, 15 U.S.C. § 1121, on 28 U.S.C. § 1338, and on principles of pendent jurisdiction.

seek "definitive adjudication" of its claims. 797 F.2d at 75, 76; A8, 10. The court offered no reason why "definitive adjudications" are preferable to negotiated settlements. Nor did it recognize that Universal—no less than Nintendo—expended very large sums to obtain a "definitive adjudication" in this very case.

After discovery, Nintendo moved for summary judgment. In its first opinion herein, the District Court granted the motion on three grounds: 1) that the Cooper Judgment "did not successfully transfer RKO's trademark rights to Cooper" because the Judgment was an impermissible "assignment in gross"; 2) that the Cooper Judgment, by recognizing RKO's movie copyright, had impermissibly "split up" the rights in King Kong, depriving King Kong of "secondary meaning" as a matter of law; and 3) that, also as a matter of law, there was no "likelihood of trademark confusion" between "Donkey Kong" and King Kong. 578 F. Supp. 911 (S.D.N.Y. 1983); A17-50.

The District Court did *not* hold that Universal's claims were frivolous or groundless. It did *not* hold that any of the vacated findings of the California Federal Court precluded Universal's present claims. To the contrary, it *rejected* Nintendo's argument that the vacated Universal Judgment "survived" in the Cooper Judgment. 578 F. Supp. at 919; A29. It also rejected Nintendo's argument that public domain status of the King Kong novel precluded a trademark, stating that "even words that are in the public domain may possess trademark significance." *Id.* at 919, 926 n.6; A29, 42 n.6.

On appeal, the first in this case, the Second Circuit affirmed on the trademark confusion issue only. 746 F.2d 112 (2d Cir. 1984); A51-64. It expressly declined to reach the District Court's "assignment in gross" theory, or its ruling that RKO's derivative copyright precluded a showing of secondary meaning for trademark purposes. *Id.* at 115; A55. It did *not* hold that Universal's claims were frivolous or groundless. Its opinion contained not a hint that the issue of secondary meaning

had been definitively resolved against Universal's position by the vacated finding of the California Federal Court. Nor did its opinion hold or suggest that public domain considerations precluded a trademark. The Second Circuit first announced those views in affirming the award of sanctions, on the *second* appeal herein.[12]

6. The Sanctions Proceedings.

The District Court then proceeded to hold a week-long trial on Nintendo's claim that Universal should be subject to attorney's fees and damages, including punitive damages, for having asserted trademark claims. It awarded Nintendo nearly $1.5 million in attorney's fees and damages. 615 F. Supp. 838 (S.D.N.Y. 1985); A65-113. Of this amount, $1,142,545.70 consisted of attorney's fees for defending against Universal's complaint, $222,498.28 consisted of non-recoverable other "costs," and $94,219.41 consisted of compensatory damages.[13] The District Court based its rulings on 1) Section 35 of the Lanham Act, which authorizes "reasonable" fees in "exceptional" cases, 2) Rule 11 of the Federal Rules of Civil Procedure, and 3) New York law of "tortious interference with contract" and punitive damages.[14]

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12 It should also be noted that the Second Circuit's trademark confusion holding on the first appeal was *not* the basis for the award of sanctions affirmed on the second appeal. At *no* time, in *any* of the proceedings in this case, did the courts below hold that Universal's position on the trademark confusion issue was frivolous or groundless. As explained below, the *sole* basis on which Universal was sanctioned was for asserting that the Cooper Judgment gave Cooper—and therefore Universal as his successor—the right to assert trademark claims relating to King Kong.

13 The sum of these figures, $1,459,263.39, together with interest accruing prior to issuance of the mandate by the Second Circuit ($96,594.20), totaled $1,555,857.59.

14 The District Court's Rule 11 ruling, which was not reached or affirmed by the Second Circuit, 797 F.2d at 77, A12, rested on Rule 11 as it existed prior to the 1983 amendments thereto, Universal having brought suit in 1982. In that pre-amendment version, Rule 11 permitted sanctions only

The District Court made no express finding that Universal's trademark claims were groundless or without foundation. Rather, it held that Universal "knew" it had "no rights" in King Kong. The basis for this ruling was evidence showing—as indeed was true—that Universal recognized RKO's and De Laurentiis' derivative copyrights in the "visual representations" of King Kong contained in their movies. The District Court held that Universal's recognition of these *copyrights* proved that Universal knew it could not claim a *trademark* in King Kong. It did not even mention the undisputed evidence that neither RKO, nor De Laurentiis, nor Paramount held any such view. A177, 169, 176.[15]

The District Court also held that Universal was not entitled to rely on the advice of its counsel, Kroft—the stated reason being that Kroft had not been called as a trial witness. The Court therefore disregarded Kroft's advice that Universal was "on firm ground" to bring suit, as a Universal witness had testified without objection. The Court also criticized Universal for not producing Kroft's "research or memoranda analyzing the claim." 615 F. Supp. at 846-47, 862; A78, 108. It cited no authority for these holdings.

The District Court made no determination that the amount of the award was reasonable. Indeed, Nintendo had offered no evidence as to the reasonableness of more than $1.3 million in attorney's fees and costs for legal services which involved only discovery and a summary judgment motion. Nintendo had

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against a lawyer who signed a pleading in subjective bad faith. However, the District Court made no finding that Universal's trial counsel—a different lawyer than its intellectual property counsel—had acted in bad faith in signing Universal's complaint. To the contrary, it repeatedly praised the highly professional conduct of trial counsel. *E.g.*, 615 F. Supp. at 841; A66; 578 F. Supp. at 914; A19.

15 The District Court did not hold that the vacated findings of the California Federal Court precluded Universal's claims. The District Court also did not retreat from its earlier view that "words in the public domain may possess trademark significance."

offered only a single question and answer as to the gross *amount* of its claimed fees and costs. The District Court apparently was content with this record as the basis for its fee award—although to Universal's knowledge it is the largest of its kind ever made.

The District Court's award of punitive and actual damages rested on its view that New York law permitted treating "wrongful civil litigation" as a species of "tortious interference with contract." 615 F. Supp. at 860-63; A104-10. It held that Universal's conduct in suing Nintendo, and in sending demand letters based on that litigation to certain of Nintendo's licensees, was actionable under New York law. It held that New York law would permit punitive as well as compensatory damages therefor. 615 F. Supp. at 863; A109-10.

7. The Second Circuit's Opinion.

The Second Circuit affirmed the award of sanctions. 797 F.2d 70 (2d Cir. 1986); A1-16. In an opinion by Senior District Judge Charles E. Metzner, sitting by designation, it held that: 1) RKO's 1933 "King Kong" movie, and Dino De Laurentiis' 1976 "re-make," "were irreconcilable with the existence of any Universal trademark rights in King Kong," and that Universal "must have known" this; 2) that "public domain" copyright status of the original King Kong novel made it "clear" that Major Cooper, and therefore Universal as his successor, "did not hold any trademark rights against the world in King Kong" but only "perhaps . . . some undefined 'merchandising rights' "; and 3) that Universal had "successfully" established before the California Federal Court that the "law" was that King Kong could not have secondary meaning, and that Universal "knew what the law was" on this point. 797 F.2d at 73, 75-76 & n.3, 78; A3-5, 9-11 & n.3, 13.

The Second Circuit, like the District Court, made no express determination that Universal's trademark claims were groundless or without foundation. In construing the Cooper Judgment, it did not cite any legal authority disregarded by

Universal. Indeed, apart from the statutory definition of "trademark," it cited no authority at all. It did not mention that the District Court had rejected the same public domain argument which it was accepting. It took no note of the fact that the District Court had also rejected Nintendo's argument that the vacated Universal Judgment "survived" in the Cooper Judgment. It did not mention the industry-wide recognition of Universal's rights.

Like the District Court, the Second Circuit held that Universal could not rely on the advice of its counsel that it was "on firm ground" to bring suit, because it had not called him as a trial witness. Like the District Court, it cited no authority for the proposition that advice of counsel can only be proved by putting counsel himself on the stand. 797 F.2d at 76-77; A11.[16]

The Second Circuit allowed the $1.1 million fee portion of the award to stand solely on the authority of Section 35 of the Lanham Act; it did not reach the District Court's alternative Rule 11 or punitive damage theories as to this sum. 797 F.2d at 77; A12. Like the District Court, it made no determination that $1.1 million in fees was reasonable here, although Section 35 is expressly limited to "reasonable" fees in "exceptional" cases. It did not seem to realize that this is apparently the largest award of its kind ever made.

The Second Circuit upheld the remainder of the award on the theory that New York law permitted some $94,000 in actual damages, and $222,000 in punitive damages, to be awarded for

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16 Also like the District Court, the Court of Appeals drew an unspecified "adverse inference" against Universal for not calling counsel as a witness. See 797 F.2d at 76-77; A11. However, as Universal had shown on its motion for a partial new trial—which went entirely unmentioned by the Second Circuit—there was and is no basis for this "adverse inference." Kroft's professional expertise was undisputed, as was his intimate familiarity with the California Court litigation. And neither Court below suggested a reason why Universal had to call him to testify that he *gave* advice which a Universal witness had already testified, without objection, Universal had *received*.

"tortious interference with contract" by means of litigation. Its punitive damage reasoning was directly based on its unsupported holding that public domain status of the King Kong novel precluded a trademark in King Kong. 797 F.2d at 78; A13. Again, it did not mention that the District Court had rejected this same public domain argument.

In affirming the state law damage awards, the Second Circuit failed to follow, distinguish, or even cite a 1984 opinion of the New York Court of Appeals, that state's highest court, which was prominently called to the attention of the Second Circuit, and which squarely holds that wrongful use of civil proceedings is actionable *only* where abuse of process or malicious prosecution occurs. *Curiano* v. *Suozzi*, 63 N.Y.2d 113, 480 N.Y.S.2d 466, 469 N.E.2d 1324 (1984). Neither of these torts was even alleged by Nintendo. The Second Circuit purported to rely, instead, on dicta in one of its own prior interpretations of New York law, and in an earlier New York case. 797 F.2d at 75; A8.

REASONS FOR GRANTING THE WRIT

I. As respects the fee award (first and second questions presented):

A. The Second Circuit's approach in imposing sanctions conflicts with decisions of this and other courts.

It is axiomatic that an award of attorney's fees or other sanctions to a prevailing defendant is not justifiable merely because the plaintiff lost. That is the very core of the "American Rule" respecting attorney's fees, to which this Court has consistently adhered. *E.g.*, *Alyeska Pipeline Service Co.* v. *Wilderness Society*, 421 U.S. 240 (1975); *F.D. Rich Co.* v. *United States*, 417 U.S. 116, 126-31 (1974).

The legislative history of Section 35 of the Lanham Act, the fee award provision on which the Second Circuit relied, makes it unmistakably clear that Congress was authorizing fee awards to prevailing defendants only for the purpose of penalizing

"unfounded" claims. S. Rep. No. 1400, 93d Cong., 2d Sess., *reprinted in* 1974 U.S. Code Cong. & Admin. News 7132, 7136. There is not the slightest indication that Congress intended to discourage *non*-frivolous litigation. To the contrary, "enforcement of trademark rights is left to the trademark owners and they should, in the interest of preventing purchaser confusion, be *encouraged* to enforce trademark rights." *Id.* (emphasis added).

It would seem essential, therefore, that any award of Section 35 fees to a prevailing defendant be preceded by a careful determination that the losing party's claim was "unfounded." And, indeed, some of the Circuits have required just that.

Thus, a proper inquiry was made in *Noxell Corp.* v. *Firehouse No. 1 Bar-B-Que Restaurant*, 771 F.2d 521 (D.C. Cir.) (Scalia, Ginsburg and Wald, Circuit Judges), *rehearing en banc denied*, 774 F.2d 1180 (1985). The D.C. Circuit there sustained an award of Section 35 fees to a Lanham Act defendant only after a painstaking analysis demonstrating that the plaintiff had disregarded controlling precedent from this Court in laying venue 3,000 miles away from the defendant's home district. Because the choice of venue was therefore unfounded, the D.C. Circuit held that the case was appropriate for an award of fees under Section 35.[17]

Likewise, the Federal Circuit in *Stevenson* v. *Sears, Roebuck & Co.*, 713 F.2d 705 (Fed. Cir. 1983), a case arising under the identically-worded fee provision in the patent law (35 U.S.C. § 285), held that a fee award to a prevailing defendant was *not* appropriate even where the plaintiff was relitigating issues previously lost and reduced to judgment. The Court rejected a claim for fees where there was an argument not "entirely

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17 Judge Wald's dissent took a *narrower* view of Section 35 than Judges Ginsburg and Scalia. Judge Wald believed that it was not enough that choice of venue was groundless.

devoid of merit" that collateral estoppel should not apply, an argument it analyzed with care. 713 F.2d at 713.[18]

The decision of the Second Circuit below stands in sharpest contrast to the careful analyses in the opinions just described. The Second Circuit made no determination that Universal's reading of the Cooper Judgment was "unfounded." Its perfunctory resolutions of issues concerning the interrelationship of copyright and trademark reflect profound confusion over the differences between them, and are almost certainly wrong. See pp. 5-9 & nn.3-6, *supra*. It decided issues contrary to the District Court without recognizing that it was doing so—much less confronting the fact that Universal's positions could hardly be actionably frivolous if the District Court had *agreed* with them. It cited no authorities except § 45 of the Lanham Act, which it apparently misread. It misread the California Federal Court record. It disparaged the advice Universal received from a lawyer fully familiar with that record, based on its own misreading of that record.[19]

Fundamentally, the Second Circuit was led into error because it did not feel obliged to, and did not, specifically

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18 Also under the patent statute, the Fifth Circuit has held that fees should not be awarded to a prevailing defendant unless the invalidity of the plaintiff's claims "should have been obvious to all parties all along." *Arbrook, Inc.* v. *American Hospital Supply Corp.*, 645 F.2d 273, 279 (5th Cir. 1981). The Seventh Circuit, in *Blau Plumbing, Inc.* v. *S.O.S. Fix-It, Inc.*, 781 F.2d 604, 612 (7th Cir. 1986), states that frivolousness or "an even more demanding standard" applies under Section 35. (The Seventh Circuit case cited by the Second Circuit here, *Scotch Whisky Ass'n* v. *Barton Distilling Co.*, 489 F.2d 809 (7th Cir. 1973), cited at 797 F.2d 77, A12, was decided two years before Section 35 was even enacted by Congress, and *denied* an award of fees under the "bad faith" exception to the American Rule.)

19 The principal authority cited by the Second Circuit for its conclusion that this was an appropriate case for sanctions, *Mennen Co.* v. *Gillette Co.*, 565 F. Supp. 648 (S.D.N.Y. 1983), *aff'd mem.*, 742 F.2d 1437 (2d Cir. 1984), cited at 797 F.2d 77, A12, involved a specific finding that the plaintiff's case had "no real substance," where the plaintiff had actually eliminated the claimed "trademark" from its products. 565 F. Supp. at 653, 657.

determine that Universal's legal position was frivolous or groundless. It could not have done so. It could hardly have condemned as actionably frivolous or groundless legal positions with which the District Court had expressly *agreed*. It would have had to consider the industry-wide recognition of Universal's trademark rights. And, guided by the correct legal standard, the Second Circuit would have had to confront the ultimate irony of its position—that under its novel views of the interrelationship of copyright and trademark law, the clear language of the Cooper Judgment stating that Cooper owned "all rights in and to the use of the name, character, and the story 'King Kong' " reduced to the triviality that Cooper owned nothing except "perhaps . . . some undefined 'merchandising rights.' " In other words, "*all* rights" meant "*no* rights."

The Second Circuit was gravely wrong in treating this complex case as an appropriate one for the award of sanctions. Its decision invites a wholesale increase in "sanctions" litigation for no conceivable meritorious reason. See pp. 2-4, *supra*.

B. The Second Circuit's failure to require a specific finding of reasonableness conflicts with prior rulings of this and other courts.

In *Hensley* v. *Eckerhart*, 461 U.S. 424 (1983), this Court held that a prevailing plaintiff seeking a fee award under 42 U.S.C. § 1988 has the affirmative burden of establishing that the amount he seeks is reasonable. *Id.* at 437. *See also Blum* v. *Stenson*, 465 U.S. 886, 898-900 (1984).[20]

Section 35 of the Lanham Act, like § 1988, expressly requires that a fee award be "reasonable." However, in this

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20 This Court gave further consideration to the issue last Term in *City of Riverside* v. *Rivera*, ____ U.S. ____, 106 S. Ct. 2686 (1986); and in *Pennsylvania* v. *Delaware Valley Citizens' Council for Clean Air*, ____ U.S. ____, 106 S. Ct. 3088 (1986). The second of these cases has been restored to the argument docket for this Term, 106 S. Ct. at 3100, 3331, for consideration of whether a fee award to a prevailing plaintiff may be "multiplied" or otherwise enhanced to reflect the risk of loss.

case, the lower courts made no determination that the $1,142,545.70 in attorney's fees awarded Nintendo under Section 35 was reasonable. Indeed, although it was seeking what is apparently the largest award of its kind ever made, Nintendo offered no evidence beyond the gross amount of the claimed fees. It did not even offer evidence of the hours spent or rates charged, much less of the exercise of "billing judgment" called for by *Hensley*.

There is no conceivable reason why fee-shifting in favor of a prevailing defendant should be governed by any *lesser* standard than fee-shifting in favor of a prevailing plaintiff. If anything, fees to a prevailing defendant should be much more strictly limited, since the plaintiff is "the chosen instrument of Congress" to vindicate federal policy. *Christiansburg Garment Co.* v. *EEOC*, 434 U.S. 412, 418 (1978).[21]

Courts other than the Second Circuit have subjected the amounts of fee requests under Section 35 to exacting scrutiny. *See, e.g., International Olympic Committee* v. *San Francisco Arts & Athletics*, 781 F.2d 733, 739 (9th Cir.), *amended on other grounds*, 789 F.2d 1319 (9th Cir. 1986); *Sealy, Inc.* v. *Easy Living, Inc.*, 743 F.2d 1378, 1385 (9th Cir. 1984). The failure of the Second Circuit to require *any* scrutiny of the amount of Nintendo's request—apparently the largest of its kind ever made—merits this Court's review independently of the Second Circuit's errors in permitting any fee award at all.

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21 Indeed, it is well-settled that the very nature of a trademark necessitates vigilant enforcement. As was recognized in one of the cases relied on by the Second Circuit, 797 F.2d at 77, A12, a trademark owner "must actively defend a mark or risk abandonment." *Steak & Brew, Inc.* v. *Beef & Brew Restaurant, Inc.*, 370 F. Supp. 1030, 1038 (S.D. Ill. 1974). The court therefore denied any award of fees to the prevailing defendant.

C. The Second Circuit's decision implicates other important federal questions.

Beyond the correct application of Section 35, itself an important federal question, petitioner submits that this case implicates other and larger federal questions as well. Section 35, which is expressly limited to "exceptional" cases, and further expressly limited to "reasonable" fees, is one of the most *limited* fee award statutes. If, as held below, it is nonetheless triggered without a threshold determination of groundlessness—even where the advice of expert counsel has been sought and obtained—the proliferation of unjustified "sanctions" claims under other, more *liberal* fee statutes, is all but a certainty. If, on top of this, a successful "sanctions" motion has a $1.5 *million* pay-off—even under a statute expressly limited to "reasonable" fees—the federal courts have gone into the lottery business.

Assuming, *arguendo*, that Congress could expressly authorize *un*reasonable fee awards in *non*-frivolous cases, it ought nonetheless to be a consistent canon of construction that such an intention is not presumed; and that, absent express Congressional authorization, prevailing defendants are not entitled to fees unless it is specifically found

a. that a claim or defense was without arguable legal merit, *i.e.*, frivolous, *and*

b. that the sanction imposed is reasonable.

By this standard, the decision below must be reversed, and Nintendo's claims for sanctions dismissed. The Second Circuit's conclusory assertion that Universal was in "bad faith"—where that term does not embrace a threshold determination of frivolousness or groundlessness—is not remotely an adequate premise for the imposition of sanctions.

This is all the more true given that the Second Circuit based its "bad faith" holding on Universal's efforts to settle its "Donkey Kong" claims. 797 F.2d at 75-76; A8-10. There is no logic to the Second Circuit's apparent preference for "defini-

tive adjudications" as against negotiated settlements. To the precise contrary, the law prefers and encourages settlements.

The touchstone of liability for sanctions must be the absence of an arguable legal basis for a claim or defense. Where, as here, Universal brought suit on the advice of counsel, premised on—at the very least—an arguably valid reading of a prior federal court judgment, sanctions may not be imposed.

II. As respects the award of state law damages (third question presented):

The Second Circuit has deliberately refused to follow the highest court of New York.

The Second Circuit accepted Nintendo's contentions that, beyond an award of fees under Section 35, it was entitled under New York law to damages allegedly caused by Universal's institution of suit and threats of similar action against Nintendo's licensees—including punitive damages more than twice the amount of the actual damages claimed. Accepting Nintendo's assertions that, under New York law, the institution of a federal court Lanham Act suit, and attempts to settle similar claims, could be the "wrongful means" required for the common law tort of "tortious interference with contract," the Second Circuit affirmed an aggregate of $316,717.69 in punitive and compensatory damages. 797 F.2d at 75, 77-78; A8, 12-13.

In so doing, the Second Circuit simply ignored a square 1984 holding by New York's highest court which makes it unambiguously clear that liability under New York law could not arise from Universal's threat or commencement of civil litigation under the Cooper Judgment, even assuming *arguendo* that Universal was improperly motivated. *Curiano* v. *Suozzi*, 63 N.Y.2d 113, 480 N.Y.S.2d 466, 469 N.E.2d 1324 (1984). *Curiano* had been prominently cited by Universal below.

Curiano, unmentioned by the Second Circuit, squarely holds that improper litigation is actionable under New York law *only*

if malicious prosecution or abuse of process occurs. 63 N.Y.2d at 116-19, 480 N.Y.S.2d at 468-70, 469 N.E.2d at 1326-28. These stringent limitations are, said the New York court, "necessary to effectuate the strong public policy of open access to the courts for all parties without fear of reprisal in the form of a retaliatory lawsuit." *Id.* Neither of these torts was (or could have been) even alleged against Universal. Thus the real New York law—as distinct from the "New York law" applied by the Second Circuit—absolutely precludes Nintendo's "retaliatory lawsuit" against Universal and bars massive "reprisal" such as the damage award involved here.[22]

This Court's review is necessary quite apart from the attorney's fee issue discussed above. The Second Circuit has disregarded the settled rule that, in applying state law, a federal court is not free to pick and choose among state law precedents. It must follow a) the most recent ruling b) of the highest court of the state. *See, e.g., Vandenbark* v. *Owens-Illinois Glass Co.*, 311 U.S. 538, 541-43 (1941); *Broussard* v. *Southern Pacific Transp. Co.*, 625 F.2d 1242, 1245-46 & n.3 (5th Cir. 1980). Pronouncements of a state's highest court *are* the law of the state. *Erie Railroad Co.* v. *Tompkins*, 304 U.S. 64, 78, 79 (1938).

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22 Accordingly, the law of New York is no less protective of the right to seek judicial relief than analogous federal case law. If, however, New York law were to be read as penalizing the assertion of federal claims where federal law did not permit, or in an amount much larger than federal law would permit, a substantial issue of federal supremacy would arise. This Court has held that state courts cannot enjoin access to federal courts. *Donovan* v. *City of Dallas*, 377 U.S. 408 (1964). Nor can state law penalize the assertion of Federal claims. *Nash* v. *Florida Industrial Comm'n*, 389 U.S. 235 (1967).

Moreover, for state law to impose financial sanctions not subject to the "exceptional case" and "reasonableness" standards laid down by Congress in Section 35 would frustrate Congress' purpose to encourage trademark proprietors to enforce their rights. *See, e.g., Arkansas Louisiana Gas Co.* v. *Hall*, 453 U.S. 571, 584 (1981); *see also Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 231 (1964). Particularly is this so if state law authorizes punitive damages for asserting Lanham Act claims, since Section 35 expressly provides that a prevailing Lanham Act *plaintiff* is entitled only to compensation, "not a penalty."

Hence a federal court cannot, as the Second Circuit did, fail even to consider such a ruling and prefer one of its own interpretations of state law. And it cannot prefer a dictum in its own earlier case—or, for that matter, in an earlier state court case—to a later square holding by the highest state court. *See, e.g., Broussard* v. *Southern Pacific Transp. Co., supra*, 625 F.2d at 1245-46 & n.3. But that is just what the Second Circuit did here. 797 F.2d at 75, A8, citing *Zilg* v. *Prentice-Hall, Inc.*, 717 F.2d 671, 677-78 (2d Cir. 1983), *cert. denied*, 466 U.S. 938 (1984), and *Guard-Life Corp.* v. *S. Parker Hardware Mfg. Corp.*, 50 N.Y.2d 183, 191, 428 N.Y.S.2d 628, 632, 406 N.E.2d 445, 448 (1980).[23]

The Second Circuit's complete disregard of *Curiano* v. *Suozzi*, which was prominently cited by Universal, appears to be a deliberate refusal to consider an authoritative statement of applicable state law. This Court can, and should, prevent that from occurring.

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23 Even the dicta in *Zilg* and *Guard-Life* do not state that a complaint which is not found to be frivolous could be the premise for a "retaliatory lawsuit" such as *Curiano* condemned. Only the decisions in this case so hold.

CONCLUSION

For the foregoing reasons, it is respectfully submitted that a writ of certiorari should issue to review the judgment of the United States Court of Appeals for the Second Circuit.

Dated: October 10, 1986

Respectfully submitted,

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86-590

No. ____

Supreme Court, U.S.
FILED
OCT 10 1986
JOSEPH F. SPANIOL, JR.
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1986

UNIVERSAL CITY STUDIOS, INC.,

Petitioner,

—against—

NINTENDO CO., LTD. AND NINTENDO OF AMERICA, INC.,

Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

APPENDIX TO PETITION FOR A WRIT OF CERTIORARI

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[Reprinted at 797 F.2d 70]

UNITED STATES COURT OF APPEALS

SECOND CIRCUIT

Nos. 1221, 1335

Argued June 16, 1986. Decided July 15, 1986.

Dockets 86-7077, 86-7099.

UNIVERSAL CITY STUDIOS, INC.,
Plaintiff-Appellant, Cross-Appellee,

—v.—

NINTENDO CO., LTD. AND NINTENDO OF AMERICA, INC.,
Defendants-Appellees, Cross-Appellants.

Before:

MESKILL and KEARSE, *Circuit Judges*
and METZNER, *District Judge.**

MICHAEL W. SCHWARTZ, Wachtell, Lipton, Rosen & Katz, New York City (David Gruenstein and Richard H. Weiss, of counsel), *for plaintiff-appellant, cross-appellee.*

* The Honorable Charles M. Metzner of the United States District Court for the Southern District of New York, sitting by designation.

JOHN J. KIRBY, Mudge, Rose, Guthrie, Alexander & Ferdon, New York City (Thomas G. Gallatin, Jr., Shelley B. O'Neill and Robert J. Gunther, Jr., of counsel), *for defendants-appellees, cross-appellants.*

METZNER, *District Judge*:

This is an appeal from a judgment, entered after a bench trial, of the United States District Court for the Southern District of New York, Sweet, J. The judgment disposed of counterclaims brought by the defendants, Nintendo Co., Ltd. and Nintendo of America, Inc. (Nintendo), against plaintiff Universal City Studios, Inc. (Universal), a subsidiary of MCA, Inc. We affirm.

BACKGROUND

This case represents the latest round involving the allegations that Nintendo infringed Universal's trademark in King Kong when it marketed its popular video game Donkey Kong. Judge Sweet decided in 1983, on motions for summary judgment, to dismiss Universal's complaint of trademark infringement and unfair competition against Nintendo. *Universal City Studios* v. *Nintendo Co.*, 578 F. Supp. 911 (S.D.N.Y. 1983). This court affirmed that judgment. *Universal Studios* v. *Nintendo Co.*, 746 F.2d 112 (2d Cir. 1984).

The district court then proceeded to try Nintendo's counterclaims against Universal. On July 29, 1985, the district court ruled for Nintendo on part of its tortious interference counterclaim; for Nintendo on its vicarious copyright infringement counterclaim; and against Nintendo on its unjust enrichment counterclaim. *Universal City Studios* v. *Nintendo Co.*, 615 F. Supp. 838 (S.D.N.Y. 1985). The court also awarded Nintendo punitive damages for tortious interference, attorney's fees for

successfully defending against Universal's trademark infringement claim, and attorney's fees for successfully prosecuting its vicarious copyright infringement counterclaim. Each party now appeals to this court on each of the claims it lost below.

The dispute between Universal and Nintendo first arose when Donkey Kong became enormously popular in 1981 and 1982. The game was played by millions of Americans, including some of the top management at Universal, who concluded that it reminded them of King Kong. Universal had been greatly interested in the original 1933 "King Kong" movie, a "Son of Kong" sequel, and a 1976 remake of the original.

In 1975 a dispute had developed between Universal, RKO Radio Pictures, Inc. (RKO), and the Dino DiLaurentis Corporation (DDL), as to who could produce a remake of the film "King Kong." RKO had produced the original film in 1933, which was based upon a book by Merian C. Cooper, who also co-authored the screenplay. In 1975, RKO licensed DDL to produce a remake, a result that upset Universal, which claimed that it had been offered the license in negotiations.

In August 1975 Universal filed suit in federal court for the Central District of California seeking a declaratory judgment that the copyright on the King Kong story had lapsed, that the story was in the public domain, and that Universal could produce a remake without infringing the rights of RKO or DDL. *Universal City Studios, Inc.* v. *RKO General Inc., et al.*, C.V. 75-3526-R (C.D. Cal. 1975). RKO counterclaimed asserting, among other things, that Universal had diluted its trademark in King Kong. At the conclusion of a four-day bench trial, Universal's regular outside trial counsel, Stephen Kroft, argued that King Kong could not be a trademark because it had no secondary meaning and was part of the ordinary English language.

On November 24, 1976, the district court found that the King Kong story, as embodied in the original novel, had become part of the public domain, and that RKO had a copyright only in "the copyrightable matter" which was contained in the 1933 movie but not in the original novel. *Univer-*

sal City Studios, Inc. v. *RKO General, Inc., et al.*, C.V. 75-3526-R (C.D. Cal. Nov. 24, 1976) (Findings of Fact and Conclusions of Law). The court found that Universal could make a movie based on King Kong as long as it did not infringe on the copyrightable scenes of the 1933 movie. *Id.*

The court denied relief on RKO's counterclaim alleging trademark dilution, adopting Universal's argument that there had been no such dilution and, further, that:

> "1) There is no evidence that the title 'King Kong' has a secondary meaning by which the public [in 1976] indentifies such title with RKO or the motion picture.
>
> 2) The name 'King Kong' has become part of the ordinary English language."

Id. The court reduced these findings to a judgment (the RKO judgment)[1] on November 24, 1976.

Richard Cooper, Merian's heir, was a defendant in the RKO litigation and had filed a cross-claim against RKO. On December 6, 1976, the court entered an interlocutory judgment which determined that Merian Cooper's agreement with RKO had given RKO the right only to produce the 1933 movie and the "Son of Kong" sequel. *Richard Cooper* v. *RKO General, Inc.*, C.V. 75-3526-R (C.D. Cal. Dec. 6, 1976).

The district court later entered findings of fact and conclusions of law in conjunction with a final judgment (the Cooper judgment) on Richard Cooper's cross-claim. The court incorporated its previous findings from the interlocutory judgment and concluded that, *as between RKO and Cooper*, Cooper possessed all rights in the name, character and story of King Kong other than the rights in the 1933 movie and the sequel

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1. RKO appealed the RKO judgment to the Ninth Circuit Court of Appeals, and Universal, in its brief to that court, argued that "[t]he name, title and character of 'King Kong' are in the public domain." Brief for Appellee, *Universal City Studios, Inc.* v. *RKO General, Inc., et al.*, Nos. 77-1518, 77-2212, at 76. Before the Ninth Circuit ruled, Universal and RKO entered into a settlement agreement. As part of the settlement, the parties agreed that the RKO judgment below would be vacated.

"Son of Kong." The court also found that RKO's license with DDL for the remake of King Kong, and its licenses with certain toy manufacturers, had breached RKO's original limited assignment from Merian Cooper. Therefore, RKO owed Richard Cooper the profits accrued from these breaches. The court consistently noted, however, that its determination of Richard Cooper's cross-claim did not affect any other person and did not affect its finding that the King Kong story was in the public domain.

It is clear from the above that Cooper did not hold any trademark rights against the world in King Kong. Any such rights that might exist would be solely against RKO.

After the entry of the Cooper judgment, Cooper assigned all of his rights in King Kong to Universal for $200,000. The primary value of the assignment, it appears, was Cooper's right to receive certain revenues DDL would pay to RKO under DDL's license to produce a King Kong remake. DDL released that remake in December 1976.

In the years following the RKO case, Universal made no effort to license King Kong. In 1981, however, O.R. Rissman, the president of Tiger Electronics Toys, Inc. (Tiger), saw a new Donkey Kong video arcade game in Japan, and decided that Tiger should produce a similar game. In September 1981 he received from Universal an exclusive King Kong license for video games.

In the summer and fall of 1981, Nintendo filed applications for a copyright and trademark for Donkey Kong and began to market the game in the United States. Nintendo also reached an agreement with Coleco Industries, Inc. (Coleco), which provided that Coleco would produce Donkey Kong in cartridge form for use with a home video game it was beginning to market. Nintendo reached similar agreements with other third parties, including Atari, which agreed to market a similar video cartridge, and with Ruby-Spears, which received an option to use the Donkey Kong name and character in a cartoon series.

In the spring of 1982 Universal began to assert that it had trademark rights in King Kong which were being infringed by Donkey Kong. In April 1982 Universal asserted to Coleco and Nintendo that their cartridge infringed Universal's rights in King Kong. Coleco promptly agreed to settle and to pay Universal 3 per cent of its profits from Donkey Kong sales. Nintendo refused to settle, however.

At about this same time Universal took action to revoke its license with Tiger, apparently because that license contained an exclusivity provision which would prevent Universal from granting a license to Coleco. Universal first terminated Tiger's license, but after Nintendo remained adamant in refusing to settle, Universal advised Tiger that it would reconsider terminating its license if Tiger made some modifications to its game. Tiger then made some minor alterations, and Universal granted a modified license which included a nonexclusivity provision.

On June 29, 1982, Universal filed suit against Nintendo in the Southern District of New York, using the local law firm of Townley & Updike as counsel. In the fall and winter of 1982 Universal moved aggressively to persuade Nintendo's Donkey Kong licensees to establish license agreements with Universal. Universal reached an agreement with Atari which provided that Universal would not sue Atari, and that Atari would pay Universal 3 per cent of the gross wholesale sales of Atari's Donkey Kong cartridges. Universal also reached a similar agreement with Ruby-Spears.

On January 3, 1983, Universal sent "cease and desist" letters to all of Nintendo's licensees restating the claims in Universal's complaint. (Universal had obtained the list of licensees in discovery in its suit against Nintendo.) Universal demanded that each licensee either cease marketing Donkey Kong products or obtain a license from Universal.

During this period Universal aggressively sought to persuade Nintendo's two other major licensees, Milton Bradley (which had a Donkey Kong board game), and Ralston Purina (which had a license for a Donkey Kong cereal), to obtain licenses

from Universal. Both companies refused, and both marketed their products without legal action by Universal.

The facts described above have given rise to three Nintendo counterclaims alleging liability. Nintendo claims first that Universal's "cease and desist" letters threatening litigation against Nintendo's third party licensees tortiously interfered with Nintendo's contractual relations with those licensees. Second, Nintendo claims that Universal's modified agreement licensing Tiger's King Kong video game vicariously infringed Nintendo's copyright in Donkey Kong. Third, Nintendo contends that Universal's agreements with Coleco, Atari and Ruby-Spears tortiously interfered with Nintendo's agreements with those three companies and resulted in unjust enrichment.

DISCUSSION

I. Universal's "Cease and Desist" Letters to Nintendo Licensees

The district court found that Universal tortiously interfered with Nintendo's contractual relations when it sent "cease and desist" letters to Donkey Kong licensees on January 3, 1983. The district court found that, as the result of these letters, six licensees[2] stopped manufacturing Donkey Kong products and refused to pay to Nintendo the guaranteed royalties specified in their licenses. This resulted in damages of $94,219.56, which the district court awarded to Nintendo.

To establish a claim for tortious interference with contractual relations under New York law (which the parties agree is applicable), Nintendo must establish: (1) a valid contract between Nintendo and a licensee; (2) Universal's knowledge of the contract and inducement of a breach; and (3) resulting damage to Nintendo. *Strobl* v. *New York Mercantile Exchange*, 561 F. Supp. 379, 386 (S.D.N.Y. 1983); *Israel* v. *Wood Dolson Co.*, 1 N.Y.2d 116, 120, 151 N.Y.S.2d 1, 5, 134 N.E.2d 97, 99 (1956).

2. These licensees were Trim Line, Charlestan Hosiery, Super Shirts, House Glass, Mantan Cork and Sylva Manufacturing.

Universal mounts on appeal a two-pronged attack against the district court's finding. First it argues that the threat of litigation, without anything more, cannot amount to tortious interference with contractual relations. Second, it asserts that the district court's findings were clearly erroneous.

At the outset, it is clear that under New York law litigation or the threat of litigation can give rise to a claim for tortious interference with contractual relations. When the New York Court of Appeals considered the basis for this tort in 1980, it described the nature of the action and included civil suits among the "wrongful means" that could give rise to liability. *Guard-Life Corp.* v. *S. Parker Hardware Mfg. Corp.*, 50 N.Y.2d 183, 191, 428 N.Y.S. 628, 632, 406 N.E.2d 445, 448 (1980). Further, the *Guard-Life* decision expressly endorsed the provisions in the *Restatement (Second) of Torts* establishing this tort. *Id.* Under the *Restatement*, a lawsuit or the threat of a lawsuit is wrongful "if the actor has no belief in the merit of the litigation." *Restatement*, *supra*, § 767, comment c. It is also wrongful if the actor, having some belief in the merit of the suit, "nevertheless institutes or threatens to institute the litigation in bad faith, intending only to harass the third parties and not to bring his claim to definitive adjudication." *Id. See also Zilg* v. *Prentice-Hall, Inc.*, 717 F.2d 671, 677-78 (2d Cir. 1983), *cert. denied*, 466 U.S. 938, 104 S.Ct. 1911, 80 L.Ed.2d 460 (1984).

The question here is whether the district court's findings in this case were clearly erroneous. Fed.R.Civ.P. 52(a). As this court has stated so often, this means that we must not distrub the findings below unless "we are 'left with the definite and firm conviction that a mistake has been committed.' " *Avis Rent a Car System, Inc.* v. *Hertz Corp.*, 782 F.2d 381, 382 (2d Cir. 1986), quoting *United States* v. *United States Gypsum Co.*, 333 U.S. 364, 395, 68 S.Ct. 525, 541, 92 L.Ed. 746 (1948). The court below found that Universal knew that it did not have a trademark in King Kong, and that it threatened suit not to adjudicate its trademark claim, but to coerce others into sharing their Donkey Kong profits.

Judge Sweet was fully justified in finding on the record of this case, that Universal did not have a good faith basis for its conduct. In assessing this case,we return to the 1975 litigation against RKO in which Universal successfully urged that the name King Kong had not acquired any secondary meaning. If anyone knew what the law was on this point under the facts of this case, it was Universal.[3]

Of course, there may be a legitimate explanation for an about-face, such as new law or changed circumstances, among others. However, Universal offered no explanation for its change in position, and in fact completely ignored the fact that it reversed course.

There was sufficient other evidence to buttress the decision below.

First, it was clear from the evidence that Sidney Sheinberg, president of Universal and MCA and also an attorney, personally knew the facts, background and nuances of the 1975 litigation. He stated that the 1975 case was his case and there was no intermediary. He knew that RKO and DDL owned copyrights in the verbatim visual images from the 1933 and 1976 movies. The evidence unequivocally indicated that Sheinberg and Joseph Di Muro, a legal consultant and former general counsel of Universal, both repeatedly concluded that Universal could not copy the verbatim movie images of the King Kong gorilla because RKO and DDL owned those images.

Sheinberg must have known that these RKO and DDL visual image rights were irreconcilable with the existence of any

---

3. The fact that the parties in the RKO suit subsequently settled their dispute and vacated the district court's judgment does not alter the underlying fact that Universal's contention of law was approved by a federal court. The holding in this case involves not an application of judicial estoppel, which would completely bar the party from arguing an inconsistent position in subsequent litigation, *see Allen* v. *Zurich Insurance Co.*, 667 F.2d 1162, 1167 (4th Cir. 1982), but only an inference as to the party's belief in the merits of its subsequent lawsuit.

Universal trademark rights in King Kong. Under the Lanham Act:

> "The term 'trade-mark' includes any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others."

15 U.S.C. § 1127. The existence of the legally protected RKO and DDL King Kong images meant that the public could not possibly associate some undefined third King Kong image and distinguish it from these other sources. In this regard it is noteworthy that Universal never created another image of King Kong.

Further, in depositions, Sheinberg either refused or was unable to identify the nature of Universal's rights in King Kong, an indication that Sheinberg did not believe in the assertion made in Universal's complaint and letters. Also consistent with such a lack of belief was Universal's less than vigorous efforts to enforce any trademark rights it thought it possessed. Before Donkey Kong was marketed, Universal did nothing to protect any rights in King Kong when trademark searches indicated third party uses of the name. Finally, this failure to act is consistent with the fact that Di Muro and Loretta Sifuentes, a lawyer and vice president of MCA, concluded that Universal had no rights to license King Kong.

Even in conjunction with Donkey Kong, Universal simply threatened legal action against numerous third party licensees of Donkey Kong, and then invited them to quickly settle their disputes. When licensees such as Coleco and Atari agreed to settle, Universal obtained handsome royalties. When other licensees refused to settle, however, Universal did not pursue its claims by filing actions in court. This further indicates that Universal used litigation and the threat of litigation merely to obtain quick settlement payments from third parties, and not to bring its claims to definitive adjudication.

Universal seeks to rebut this wide array of evidence by arguing that Cooper received in the Cooper Judgment, and then transferred to Universal, trademark rights that had been held by RKO. Perhaps Cooper did receive and transfer some undefined "merchandising rights," but Cooper plainly did not obtain any trademark rights in his judgment against RKO, since the California district court specifically found that King Kong had no secondary meaning.

Universal seeks nonetheless to avoid liability by asserting that it relied on the opinion of outside counsel Steven Kroft that it had a valid claim. Under the *Restatement*, a party is not liable in tort for threatening legal action if it relied upon the advice of counsel, sought in good faith, after full disclosure of all relevant facts within its knowledge and information. *Restatement*, § 675.

In this case, Universal failed to call Kroft as a witness at trial. The district court "inferred from the absence of Kroft's testimony and his continuing close relationship with Universal that, had he testified, his testimony would have been unfavorable to Universal on the subject of its trademark claim." 615 F. Supp. at 847. Given Kroft's position in the RKO litigation that King Kong had no secondary meaning, and the fact that Kroft, as a witness, was essentially under Universal's control, it is reasonable to infer that Kroft's testimony would not have supported Universal. Indeed, it would have been interesting to hear him explain the consistency of any advice to Universal that it had trademark rights with his statements to the California district court on this point.

The Award of Attorney's Fees

The district court awarded Nintendo $1,142,545.70 for the attorney's fees incurred in defending Universal's trademark infringement and unfair competition claims. It found that this award was proper under Section 35 of the Lanham Act, or alternatively, as punitive damages on the tortious interference claim or pursuant to Rule 11 of the Federal Rules of Civil Procedure.

The district court's award of attorney's fees in this case was appropriate under Section 35 of the Lanham Act. 15 U.S.C. § 1117. This section states that "[t]he court in exceptional cases may award reasonable attorney's fees to the prevailing party."

The district court did not err when it found that Universal brought its Lanham Act claim in bad faith merely to join in the profits from Donkey Kong. It then based its award of attorney's fees in this case on *Mennen Co.* v. *Gillette Co.*, 565 F. Supp. 648 (S.D.N.Y. 1983), *aff'd mem.*, 742 F.2d 1437 (2d Cir. 1984). In *Mennen*, a district court awarded counsel fees to a defendant which had successfully defended against trademark and unfair competition claims because:

> "There is a substantial overtone in this case to warrant an inference that this suit was initiated as a competitive ploy. As such it carries necessary damage to the defendant when the plaintiff's claims are found, as they are here, to have no real substance."

565 F. Supp. at 657.

The Mennen approach is consistent with that taken by other courts which have considered the attorney's fee issue by focusing on whether a losing party prosecuted or defended a claim in bad faith. *Scotch Whisky Ass'n* v. *Barton Distilling Co.*, 489 F.2d 809, 813-14 (7th Cir. 1973); *DC Comics, Inc.* v. *Filmation Associates*, 486 F. Supp. 1273, 1284 (S.D.N.Y. 1980); *Steak & Brew, Inc.* v. *Beef & Brew Restaurant, Inc.*, 370 F. Supp. 1030, 1038 (S.D. Ill. 1974).

Given this conclusion, there is no need for this court to determine whether an award of attorney's fee was justified as punitive damages or pursuant to Rule 11 of the Federal Rules of Civil Procedure.

The Award of Punitive Damages

The district court also awarded $222,498.28 as punitive damages on Nintendo's tortious interference counter-claim. This amount represented funds which Nintendo disbursed in defending against Universal's Lanham Act claim, but which

were not spent on attorney's fees and which were not taxable as costs under Civil Rule 11 of the Rules of the Southern District of New York.

Under New York law, an injured party can recover punitive damages when the tortious act complained of involved a wanton or reckless disregard of the plaintiff's rights. *Giblin* v. *Murphy*, 97 A.D.2d 668, 671, 469 N.Y.S.2d 211, 215 (3d Dept. 1983); *Le Mistral, Inc.* v. *Columbia Broadcasting System*, 61 A.D.2d 491, 494-95, 402 N.Y.S.2d 815, 817 (1st Dept. 1978), *appeal dismissed*, 46 N.Y.2d 940 (1979). The New York courts have considered punitive damages to be particularly appropriate for tortious conduct involving deliberate action "systematically conducted for profit." *See Walker* v. *Sheldon*, 10 N.Y.2d 401, 406, 223 N.Y.S.2d 488, 492, 179 N.E.2d 497, 499 (1961).

An award of punitive damages was appropriate under the facts of this case. First, Universal knew that it did not have trademark rights in King Kong, yet it proceeded to broadly assert such rights anyway. This amounted to a wanton and reckless disregard of Nintendo's rights.

Second, Universal did not stop after it asserted its rights to Nintendo. It embarked on a deliberate, systematic campaign to coerce all of Nintendo's third party licensees to either stop marketing Donkey Kong products or pay Universal royalties.

Finally, Universal's conduct amounted to an abuse of judicial processes, and in that sense caused a larger harm to the public as a whole. Depending on the commercial results, Universal alternatively argued to the courts, first, that King Kong was part of the public domain, and then second, that King Kong was not part of the public domain, and that Universal possessed exclusive trademark rights in it. Universal's assertions in court were based not on any good faith belief in their truth, but on the mistaken belief that it could use the courts to turn a profit.

Based on these facts the district court's award of punitive damages was not an abuse of discretion.

II. Universal's License of Tiger's King Kong Video Game

The district court found that Universal vicariously infringed Nintendo's copyright in Donkey Kong by licensing the competing King Kong game made by Tiger. The court found that Universal knowingly contributed to this infringement, and awarded Nintendo the profits Universal accrued on the Tiger license, totaling $56,689.41.

On appeal, Universal argues that the district court erred by failing to specify which part of Nintendo's arcade game represented protectible expression as distinguished from the underlying and unprotectible idea. Further, Universal argues that the characters involved in Donkey Kong are not protectible because they are not "wholly fanciful."

The district court specified the protectible aspect of Donkey Kong with reasonable precision. It recognized that the game characters themselves were not protectible, but found that the "interaction" of the characters, obstacles, background and music were "arbitrary, fanciful, and sufficiently distinctive such that they deserve protection. . . ." 615 F. Supp. at 859-60.

The district court's finding is further buttressed by Universal's initial termination of the Tiger license and the admission to Nintendo by Robert Hadl, a vice president of Universal, that Universal recognized that the Tiger game infringed Nintendo's copyright in Donkey Kong.

The district court also awarded attorney's fees of $83,525.05 to Nintendo for the time spent on the vicarious copyright infringement claim. 615 F. Supp. at 864. Universal appeals from this award.

The district court awarded attorney's fees pursuant to 17 U.S.C. § 505 which provided that "[t]he court in its discretion . . . may award a reasonable attorney's fee to the prevailing party." This circuit has long held that such an award lies within the sound discretion of the trial court. *Orgel* v. *Clark Boardman Co.*, 301 F.2d 119, 122 (2d Cir.), *cert. denied*, 371 U.S. 817, 83 S. Ct. 31, 9 L. Ed. 2d 58 (1962).

Given the findings noted above, an award of attorney's fees was well within the district court's discretion. *Roth* v. *Pritikin*, 787 F.2d 54, 57 (2d Cir. 1986); *see also Diamond* v. *Am-Law Publishing Corp.*, 745 F.2d 142, 148 (2d Cir. 1984).

III. Universal's License Agreements with Coleco, Atari and Ruby-Spears

The district court rejected Nintendo's counterclaims seeking damages on the basis of Universal's license agreements with Coleco, Atari and Ruby-Spears. Nintendo contends that it is entitled to relief on the ground, first, that Universal tortiously interfered with Nintendo's license agreements with these three companies (the Nintendo Agreements), and second, that Universal's action resulted in unjust enrichment.

As to tortious interference, there is no evidence to indicate that the Nintendo Agreements were materially breached. Universal's actions did not in any way reduce the payment of royalties to Nintendo. Further, the fact that these licensees entered into agreements with Universal, by itself, does not establish a breach of the Nintendo Agreements because those agreements permitted the licensees to settle any infringement actions brought against them.

In the counterclaim for unjust enrichment, Nintendo alleges that Universal misappropriated Nintendo's trademark in Donkey Kong when it licensed King Kong in agreements with Coleco, Atari and Ruby-Spears. Nintendo argues that it is entitled to recover the $4.76 million in revenue that Universal earned from these agreements because, in substance, Universal licensed not King Kong, but rather Nintendo's rights to Donkey Kong.

To recover on a theory of unjust enrichment under New York law, a party must establish not only that there was enrichment, but that the enrichment was at the plaintiff's expense, and that the circumstances dictate that, in equity and good conscience, the defendant should be required to turn over its money to the plaintiff. *Dolmetta* v. *Uintah National Corp.*, 712 F.2d 15, 20 (2d Cir. 1983); *see also McGrath* v. *Hilding*, 41

N.Y.2d 625, 629, 394 N.Y.S.2d 603, 606, 363 N.E.2d 328, 330 (1977). A circuit court's review of an unjust enrichment determination is limited. "The granting of equitable relief lies within the sound discretion of the trial court, so long as that discretion is exercised in accordance with the applicable established precedents." *Indyk* v. *Habib Bank Limited*, 694 F.2d 54, 57 (2d Cir. 1982).

Nintendo sold its rights in Donkey Kong to Coleco, Atari and Ruby-Spears when it entered into license agreements with these three companies. Thus, on the face of the transactions involved in this case, Universal did not obtain money that was owed to Nintendo.

This is not to say that Universal acted properly when it entered into these three license agreements. Any injustice harmed not Nintendo, however, but the three companies that paid Universal. Equity requires, therefore, that if Universal must disgorge its profits, the money should be paid to these companies. Coleco has already sued Universal to recover the revenues it paid. *Coleco Industries, Inc.* v. *Universal City Studios, Inc.*, 84 Civ. 2596 (S.D.N.Y. filed April 12, 1984). That case, not this one, represents the proper means to determine the propriety of Universal's conduct.

The judgment of the district court is affirmed.

[Reprinted at 578 F. Supp. 911]

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

No. 82 Civ. 4259 (RWS)

Dec. 22, 1983

UNIVERSAL CITY STUDIOS, INC.,

Plaintiff,

—v.—

NINTENDO CO., LTD. and Nintendo of America, Inc.,

Defendants.

Townley & Updike, New York City, for plaintiff; Douglas C. Fairhurst, Mary D. Faucher, Sandra Edelman, New York City, *of counsel*.

Mudge, Rose, Guthrie, Alexander & Ferdon, New York City, Sax & Maciver, Seattle, Wash., for defendants; James L. Magee, Seattle, Wash., John J. Kirby, Jr., Thomas G. Gallatin, Jr., Shelley B. O'Neill, Catherine E. Palmer, New York City, *of counsel*.

SWEET, *District Judge.*

This is a dispute over two gorillas. Defendants Nintendo Co., Ltd., a Japanese corporation, and Nintendo of America, Inc. (referred to herein collectively as "Nintendo"), have moved for summary judgment to dismiss the trademark and unfair competition complaint of plaintiff Universal Studios, Inc. ("Universal"), a California corporation which seeks to enforce certain rights with respect to King Kong.

Nintendo's gorilla appears in a video game named "Donkey Kong." In the game, described in greater detail below, the player manipulates a little man past numerous obstacles and up a series of ramps on a structure, at the top of which stands a large gorilla holding a pretty girl. Nintendo manufactured, distributed and sold the game in the United States. The game was a major commercial success.

Universal claims that its gorilla is King Kong. Exactly who King Kong is, in the trademark sense, and what he looks like, is a key to this lawsuit. There is, of course, a King Kong, for those expatriates and hermits who don't know, who is the central character in a famous 1933 motion picture (the "1933 movie") produced by RKO Radio Pictures, Inc. ("RKO") and in a remake of that motion picture (the "1976 remake") done by the Dino DiLaurentiis Corporation ("DDL") in 1976. Universal does not claim to own a trademark in these images of King Kong, but instead claims to be the owner of a trademark in the King Kong name and another King Kong character by virtue of certain recent assignments.

For reasons set forth below, I conclude that summary judgment is appropriate and the complaint will be dismissed.

Prior Proceedings

In April 1982, Universal brought this suit claiming that Donkey Kong because of its similarity to King Kong violates Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), as well as section 368-d of the New York General Business Law (the antidilution statute) and related state causes of action. This

occurred some nine months after Nintendo had commenced marketing its extremely successful game. Discovery was thereafter completed. Universal did not seek preliminary injunctive relief against the alleged infringement. The action is ready for trial.

A hearing was conducted on August 8, 1983 on the motion for summary judgment during which "Donkey Kong" was demonstrated by a game master and pertinent parts of the 1933 movie and the 1976 remake were reviewed, an altogether satisfying court day enhanced by the argument of highly skilled and forceful counsel and marred only by the submission of affidavits, depositions and briefs. Upon these proceedings the following findings and conclusions are reached.

The Issues

Nintendo has moved to dismiss the action on the grounds that: (1) Universal is precluded from asserting trademark rights in King Kong by the doctrines of collateral and judicial estoppel, because the issues in this action were fully litigated in a previous action in federal court in California during 1975-81; (2) the documents resulting from the California litigation do not, as a matter of law, successfully convey a trademark to Universal; (3) Universal cannot claim a trademark in King Kong because the multiple origins and present uses of King Kong have made it impossible for King Kong to denote a single source of origin, which is the necessary function of a trademark; and (4) as a matter of law, there is no likelihood of confusion as to the source of Donkey Kong, and Universal's agreements with the Nintendo licensees constitute an abandonment of any trademark claim to King Kong and alternatively constitute an admission that Donkey Kong is not an infringement. In addition, Nintendo seeks summary judgment dismissing Universal's claim under the New York antidilution law.

Facts

King Kong

The King Kong story first appeared in public with its publication in 1932 as a book and a magazine serial. Merian C. Cooper was the originator of the story that was the basis for the book and magazine serial. His son and heir, Richard Cooper ("Cooper") now holds the exclusive book publishing rights with respect to King Kong, including the right to make, distribute or license novels, comic books or magazine articles using the King Kong name, character and story.

In 1933, RKO released the first King Kong motion picture. The screenplay for the 1933 movie was co-authored by Merian Cooper, and was based on the story which was also the basis of the book and the magazine. The 1933 movie has become an American classic, and the parties agree that its scenes, especially the one in which King Kong stands on top of the Empire State Building holding Fay Wray captive, are recognized by the American public and need no description here for the benefit of the parties or the reviewing authorities.

RKO continues to hold the exclusive copyright to the 1933 movie and all depictions of King Kong in it. From 1933 until 1979, RKO and 15 licensees used and advertised the King Kong name, character and story in many products, including toys, games, books and garments. These merchandising activities were unsupervised and unchallenged. Over the same period, there have also been published and commercial uses of the term "King Kong," and variations on it and of the King Kong character and image, as well as third-party trademark registrations of the "King Kong" name and variations on it, all without reference to the makers of the movie. The term "King Kong" is now defined in various dictionaries and listed in some editions of Roget's Thesaurus.

In 1975, amidst a dispute involving RKO, Universal and DDL as to who could produce a remake of King Kong, Universal brought suit in California state and federal court to resolve this question. The dispute began when RKO, the maker of the original 1933 movie, licensed DDL to remake the

picture. Universal, claiming that RKO had promised in negotiations to license Universal to remake the picture, sued RKO and DDL in California state court for breach of contract and tortious interference with contractual relations. That action was ultimately settled.

While Universal was pursuing its contract claim in state court, it began to produce its own King Kong remake in August 1975. It also commenced a declaratory judgment action in California Central District federal court against RKO, DDL and Cooper, No. 75-3526, seeking, among other things, a declaration that the copyright on the King Kong story had lapsed, that the story was thus in the public domain, and that Universal might produce a new King Kong movie without infringing on any rights of RKO and DDL.[1] RKO answered that Universal was not entitled to infringe on RKO's copyright and related rights in King Kong. In addition, RKO counterclaimed, alleging Universal's planned remake would infringe RKO's King Kong copyright and would constitute unfair competition by, among other things, diluting RKO's rights in the King Kong title and character.[2] Universal's reply denied these counterclaims.

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1. The Universal complaint contended:

> That the Mystery Magazine serialization and the King Kong novel and all the Old Material contained therein are in the public domain; and
>
> That Universal may produce, sell, distribute and exhibit a motion picture photoplay based primarily on the Old Material contained in the Mystery Magazine serialization and the King Kong novel, as long as it does not contain New Material, if any, from the King Kong photoplay; and such a motion picture photoplay produced by Universal will not infringe upon the claimed rights of defendants, or any of them, in the King Kong photoplay, or any alleged rights in the King Kong novel or any other alleged rights of defendants.

2. RKO's counterclaim contended that:

> UNIVERSAL has publicly announced, stated and represented, in the press, in these proceedings, and elsewhere, that it plans and intends to produce, sell, distribute, and exhibit throughout the world, a motion picture photoplay slavishly copying RKO's said copyrighted motion picture photoplay KING KONG featuring the character KING KONG, and

DDL also answered and counterclaimed contending, among other things, that the King Kong name and character had acquired a secondary meaning and that Universal's King Kong production would constitute wrongful appropriation of the King Kong name and character and the associated rights. Again, Universal's reply to the counterclaim denied that the name and character had any secondary meaning. (DDL's counterclaim was later dismissed with prejudice by stipulation.) Defendant Cooper, in addition to denying that the "King Kong" story had fallen into the public domain, cross-claimed against RKO, claiming, among other things, that he was the successor to his father's rights in King Kong. Cooper also claimed that his father's contract with RKO allowed RKO to make only the 1933 movie, and that, because of this limited grant of rights, all other commercial exploitation of the King Kong name, character and story by RKO were for Cooper's account.

After a four-day trial before District Judge Real, the Court, on November 24, 1976, held (the "First Judgment") that the

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utilizing the name KING KONG as the title or part of the title thereof. RKO has duly objected to said plans of UNIVERSAL, but to the best of RKO's information and belief, UNIVERSAL is going forward with said production.

. . . RKO has entered into a written agreement with defendant DINO DILAURENTIIS CORPORATION ("DILAURENTIIS") exclusively licensing it to produce and distribute a new version, or remake, of KING KONG in consideration of a percentage of the gross receipts from the exhibition thereof.

By issuing said announcements, statements, and representations, UNIVERSAL: has slandered and called into question RKO's rights in its said copyrighted motion picture photoplay and the component parts of title thereof; has diluted RKO's rights and the value thereof in said copyrighted motion picture photoplay, the title thereof, and the character King Kong; and has interfered with RKO's prospective economic advantage under said written agreement with DiLaurentiis, all to RKO's damage in a sum as yet unascertained but believed to be in excess of $5,000,000.00. If Universal is not enjoined from continuing to make such announcements, statements, and misrepresentations, RKO's said rights will be further demeaned and diluted and its prospective economic advantage further diminished, all to its irreparable injury.

King Kong story was in the public domain, that Universal could make a movie based on King Kong so long as it did not infringe on the copyrighted 1933 King Kong movie and that RKO's counterclaim was dismissed on the merits. On the same date that this judgment was entered, the Court entered certain findings of fact and conclusions of law, including the following:

1) There is no evidence that the title "King Kong" has a secondary meaning by which the public identifies such title with RKO or the motion picture.

2) The name "King Kong" has become part of the ordinary English language.

On December 6, 1976, the Court signed an interlocutory judgment for Cooper on his cross-claim (the "Cooper Judgment"). The Court held that:

1) As between RKO and Cooper, all rights in the name, character and story of King Kong, other than the rights in the 1933 movie and the sequel "Son of Kong" are vested in Cooper.

2) RKO is a constructive trustee for Cooper to the extent it has exercised rights to King Kong other than in the 1933 movie and "Son of Kong."

3) Cooper recover from RKO all profits earned by RKO in its trustee capacity.

4) This interlocutory judgment does not affect the court's finding that the King Kong story is in the public domain.

After the entry of this judgment, Cooper and Universal reached an agreement (the "Cooper-Universal Assignment") and for $200,000 Cooper assigned to Universal all his rights in King Kong.

RKO appealed the First Judgment to the Ninth Circuit Court of Appeals, No. 77-1518. But before the Court ruled,

Universal and RKO entered into a settlement agreement (the "Universal-RKO Agreement"), in which RKO agreed to pay Universal roughly 62.5% of the revenues RKO realized from the DDL remake. RKO also agreed not to sue Universal for any King Kong movie Universal might make, but Universal agreed to pay RKO a small percentage of net profits from any such remake. RKO and Universal also agreed not to sue each other because of any claim arising out of the state or federal actions.

The Court of Appeals, after being advised of these agreements, dismissed RKO's appeal, vacated the First Judgment and the Cooper Judgment and remanded to the district court to determine which actions were moot by reason of the settlements, and enter dismissals or new judgments as appropriate. In a November 19, 1980 order on stipulation, Universal's complaint against RKO was dismissed without prejudice and RKO's counterclaim was dismissed with prejudice. On January 5, 1981, the district court reinstated the March 21, 1979 judgment entered for Cooper on his cross-complaint against RKO. The 1979 judgment, which had been assigned to Universal, incorporated the findings of fact and conclusions of law described above to the effect that the Cooper Judgment did not affect the Court's finding that the King Kong story was in the public domain.

While this litigation was proceeding, in December 1976, Paramount Pictures Corp. ("Paramount"), amidst heavy promotion, released the DDL remake of King Kong, which was licensed by RKO. More than 25 million people saw it. Later, in 1977, Paramount and DDL obtained a preliminary injunction against the release of "APE," a movie the court held likely to be confused with the 1976 remake. *Paramount Pictures Corp.* v. *Worldwide Entertainment Corp.*, 195 U.S.P.Q. 539 (S.D.N.Y. 1977). From 1976 through 1979, Paramount under controlled licensing agreements with DDL and RKO, used the King Kong name and character in connection with the sale of numerous consumer products, such as schools supplies, wrist-

watches, dolls, games, toys and articles of apparel. DDL holds the exclusive copyright to the 1976 remake.

Universal acquired whatever rights it has in King Kong by means of the Cooper-Universal assignment. Because of RKO's outstanding King Kong licensing arrangements with DDL and Paramount, Universal did not begin to exploit the King Kong name and character until approximately December 1980. In that month, Universal, through its merchandising subsidiary, Mechandising Corporation of America ("MCA"), granted its first license authorizing the use of the King Kong name and character for the sale of costumes. Universal derived about $3,300 from the license, which was with Ben Cooper, Inc. Subsequently and before this lawsuit was brought, MCA licensed Tiger Electronic Toys, Inc. ("Tiger") to develop and sell King Kong tabletop and handheld video games. Universal has received $39,000 from the sale of those products, which bear the King Kong trademark. Universal has also licensed National Electronics & Watch Co. Ltd. to use the King Kong name in the promotion and sale of wristwatch games. That license runs through December 31, 1984. The revenues Universal has received from this license have not been indicated to the court. In addition, in April 1983, Universal authorized Robert Keith & Co. for a fee of $1,000 to display a King Kong gorilla balloon on top of the Empire State Building in conjunction with the Building's 50th anniversary celebration of the 1933 movie. Finally, Universal is developing a King Kong tour attraction which will become part of the Universal Studios Tour in California, and plans to develop a similar King Kong tour attraction at Universal's Florida tour facility.

In other instances, businessmen seeking licenses for uses of King Kong have been confused over who owns the rights to King Kong. According to the deposition testimony of RKO executive William M. Regan, when the licensee referred to above sought to put a King Kong balloon atop the Empire State Building, the licensee, RKO and Universal were unsure whether RKO or Universal had the right to grant the license. Similarly, when another potential licensee first approached

Universal to license King Kong for use in an advertisement, Universal referred the licensee to RKO, but RKO executives did not know whether they had the exclusive right to license the use and the licensee apparently gave up trying to get the license.

Donkey Kong

Nintendo Co., Ltd., the Japanese parent, is engaged in the manufacture, assembly and sale of arcade and hand-held video games, as well as other games. Nintendo of America, Inc. imports, assembles, manufactures and sells arcade and table-top video games and imports hand-held video games.

Nintendo's development of Donkey Kong began in March 1981. In the design stages, the original game concept involved a port scene, and featured the Popeye cartoon characters—Popeye, Bluto and Popeye's girlfriend, Olive Oyl. Because it was determined that it was not technically possible to present the Popeye characters on the video screen, the characters Popeye and Bluto were replaced with "Mario the Carpenter" and a comical gorilla, and the port scene was changed to an unfinished building.

The name "Donkey Kong" was selected for the game through an informal process. The word "kong" was adopted because it was believed to be readily understandable as denoting a gorilla; the word "donkey" was derived by consulting a Japanese/English dictionary which gave the word "donkey" as a translation for a Japanese word meaning stupid or "goofy." Shigeru Miyomoto, the Nintendo employee who designed Donkey Kong, testified by deposition that he had seen King Kong movies, and that he referred to the Donkey Kong gorilla as "King Kong" while designing the game.

The object of the Donkey Kong game is for the player to maneuver Mario the Carpenter up an unfinished girdered structure to rescue a girl from the gorilla at the top. To reach the top, Mario must run up ramps, climb ladders, jump on moving construction elevators and ride conveyor belts while avoiding obstacles such as cement tubs, foxfires, barrels, and

beams rolled down the structure by Donkey Kong. Mario wins such prizes as telephones, umbrellas, lunch pails and birthday cakes on his way. At the top of the unfinished structure, Donkey Kong struts back and forth and jumps up and down.

In July 1981, the Donkey Kong game was introduced into the United States market. The game was a major commercial success. Nintendo has received over $180 million from the sale in the United States and Canada of approximately 60,000 Donkey Kong video arcade games. Nintendo has licensed its trademark in the Donkey Kong name and characters to over 50 licensees for use in connection with a large variety of products and has received over $8.5 million in royalties for such licenses. Major licensees include Atari, Inc. ("Atari"), Coleco Industries, Inc. ("Coleco"), Ruby-Spears Enterprises, Inc. ("Ruby-Spears") and Ralston Purina Company. Nintendo has also developed and now markets video arcade games called "Donkey Kong Junior" and "Mario Brothers," based on the characters made popular in the original Donkey Kong game. In addition, Nintendo has developed and now markets handheld video games called "Donkey Kong," "Donkey Kong II," "Donkey Kong Junior" and "Mario Brothers." Nintendo also manufactures and sells tabletop video games named "Mario's Cement Factory" and "Donkey Kong Junior."

Universal sought to enforce its rights against the Nintendo licensees. Atari, Coleco and Ruby-Spears settled Universal's claims against them over their use of Donkey Kong by agreeing to pay royalties to Universal amounting to several million dollars for Universal's covenant not to sue. In return, the Coleco and Atari agreements gave Universal a three percent royalty and the Ruby-Spears agreement gives Universal royalties as well as the right to distribute Donkey Kong programs produced off-network throughout the world, including pay and cable television, video discs and cassettes. Universal does not control or supervise any of the three licensees' exploitation of Donkey Kong.

The Donkey Kong products are labeled to indicate their source of origin from Nintendo. The exteriors of the cabinetry

of the Donkey Kong video arcade games display Nintendo's copyright notice "(c) 1981 Nintendo of America, Inc." and display prominently the name "Donkey Kong (TM)" with the notation "Nintendo (TM)." Prior to insertion of a coin in the game, the video screen displays an "attract mode" (to attract players to the game), which shows the name "Donkey Kong (TM)" and the copyright notice "(c) 1981 Nintendo of America Inc." Licensed Donkey Kong products are also labeled to indicate their source of origin from Nintendo.

A survey conducted for Universal by Opinion Research Corporation in March of this year asked video arcade owners and operators who had purchased the Donkey Kong game (a) why they thought the game was called Donkey Kong and (b) whether they believed Donkey Kong was sold with the approval or under the authority of those responsible for the King Kong motion pictures. Eighteen percent of the survey audience said they believed that Donkey Kong had been sponsored or authorized by the King Kong motion picture makers. Universal has submitted articles from video industry books and magazines, containing such statements as "Inarguably, the most visible of Donkey Kong's predecessors is King Kong and his movie kin." and referring to Donkey Kong as "a video version of the film classic KING KONG."

Neither Universal nor Nintendo have submitted evidence regarding confusion between King Kong and Donkey Kong by consumers who buy and/or play video games or the degree of sophistication of those consumers.

Discussion

I. *Collateral and Judicial Estoppel*

Nintendo's collateral estoppel argument relies on three judgments:

1) the First Judgment;

2) the Cooper Judgment in its final, 1981 form; and

3) the November 19, 1980 order on stipulation.

The collateral estoppel argument based on the first and second judgments can be rejected without great difficulty. The reason the First Judgment lacks collateral estoppel effect is that it was vacated by the Court of Appeals. *See Quarles* v. *Sager*, 687 F.2d 344, 346 (11th Cir. 1982); 1B J. Moore, *Moore's Federal Practice* ¶ 0.416[2] at 2231 ("A judgment that has been vacated, reversed, or set aside on appeal is thereby deprived of all conclusive effect, both as res judicata and as collateral estoppel.")

Nintendo maintains, however, that the substance of the First Judgment survived by means of the Cooper Judgment, because the Final Judgment's "terms are clearly reflected in the reinstated Cooper Judgment." The Cooper Judgment does no such thing, however. The only support Nintendo provides for this view is the statement in the Cooper Judgment (which held, *inter alia*, that the King Kong story was in the public domain), that that judgment did not "affect any other entity or person." This caveat failed to reinstate a previously vacated judgment.

Nintendo also claims that the Cooper Judgment has collateral estoppel effect of its own. The Cooper Judgment, unlike the First Judgment, was reinstated after its having been vacated by the Court of Appeals. It thus is capable of having collateral estoppel effect. However, the holding of the Cooper Judgment cannot have collateral estoppel effect against Universal in this suit because it is not relevant to the issues raised by this suit. The only holding of the Cooper Judgment that might be relevant to Universal's current suit is the Court's finding of fact that the King Kong story was in the public domain. However, although this finding is relevant to whether a work has been copyrighted, it is not dispositive of the trademark issue. *See Frederick Warne & Co., Inc.* v. *Book Sales, Inc.*, 481 F. Supp. 1191, 1196 (S.D.N.Y. 1979) ("The fact that a copyrightable character or design has fallen into the public domain should not preclude protection under the trademark laws . . . ."); Adams, *Superman, Mickey Mouse and Gerontology*, 64 Trade-Mark Rep. 183, 188-89 (1974); note 6 *infra*.

Nintendo's third argument for collateral estoppel—based on the November 19, 1980 order on stipulation—is more persuasive. That order dismissed Universal's claim against RKO without prejudice and dismissed RKO's counterclaim with prejudice. It thus might be taken to be a judicial declaration that RKO's trademark counterclaim lacked merit, and that thus the trademark to which Universal alleges it succeeded did not exist. That order, however, is too slender a reed to provide for collateral estoppel for it is not clear that Universal and RKO intended the consent judgment to have collateral estoppel effect.

When a judgment has been entered on consent, the demonstration of such intent by the parties is a prerequisite to the giving of collateral estoppel effect. *See Kaspar Wire Works, Inc.* v. *Leco Engineering & Machine, Inc.*, 575 F.2d 530, 539 (5th Cir. 1978) ("If [the parties to a consent decree] have in their compromise indicated clearly the intention that the decree to be entered shall not only terminate the litigation of claims but, also, determine finally certain issues, then their intention should be effectuated."); 1B Moore ¶ 0.444[1] at 4003-04, ¶ 0.444[3] at 4022-24; 18 C. Wright, A. Miller & E. Cooper, *Federal Practice and Procedure* § 4443 at 388 ("Preclusion is appropriate if it is clear the parties intended it . . .").

Whether the consent judgment is accompanied by findings of fact is especially relevant to the determination of the parties' intent. In *Lawlor* v. *National Screen Service*, 349 U.S. 322, 75 S. Ct. 865, 99 L. Ed. 1122 (1955), the Supreme Court declined to give collateral estoppel effect to a settlement agreement between the parties then before the Court because the consent judgment "was unaccompanied by findings and hence did not bind the parties on any issue . . . which might arise in connection with another cause of action." *Id.* at 327, 75 S. Ct. at 868. In support of this holding, the Court quoted *United States* v. *International Building Co.*, 345 U.S. 502, 503, 505, 73 S. Ct. 807, 808, 97 L. Ed. 1182 (1953), in which collateral estoppel effect was denied to a consent judgment, because that judgment was

> only a *pro forma* acceptance by the Tax Court of an agreement between the parties to settle their controversy for reasons undisclosed. There is no showing either in the record or by extrinsic evidence . . . that the issues raised by the pleadings were submitted to the Tax Court for determination and determined by that court. They may or may not have been agreed upon by the parties. Perhaps, as the Court of Appeals inferred, the parties did agree on the basis for depreciation. Perhaps the settlement was made for a different reason, for some exigency arising out of the bankruptcy proceeding. As the case reaches us, we are unable to tell whether the agreement of the parties was based on the merits or on some collateral consideration.

Id. 349 U.S. at 327 n. 12, 75 S. Ct. at 868 n. 12. *See also American Heritage Life Insurance Co.* v. *Heritage Life Insurance Co.*, 494 F.2d 3, 8-9 (5th Cir. 1974). The consent judgment on which Nintendo relies does not contain any findings of fact. It is merely a judicial ratification of a settlement of the Universal-RKO dispute.

However, Nintendo attempts to save the consent judgment by arguing that the findings of fact underlying the Cooper Judgment are sufficient to give the consent judgment collateral estoppel effect. As was shown above, however, those findings relate only to a copyright issue, not to the trademark issue on which Nintendo claims the consent judgment has collateral estoppel effect. As a result, Universal's and RKO's intent in settling their dispute cannot be determined with sufficient clarity to allow that settlement to have collateral estoppel effect. As the Supreme Court said in *Lawlor, supra*, "As the case reaches us, we are unable to tell whether the agreement of the parties was based on the merits or on some collateral consideration." For this reason, Nintendo's argument for summary judgment because of collateral estoppel is rejected.

As a related argument, Nintendo contends that Universal should be precluded from asserting trademark rights in King Kong by the doctrine of judicial estoppel, in which "a party may be precluded by a prior position taken in litigation from

later adopting an inconsistent position in the course of a judicial proceeding." 1B Moore ¶ 0.405[8] at 765. Leaving aside the question of the vitality of this doctrine in this Circuit or elsewhere,[3] the doctrine would not apply here in any case because the courts that have applied the doctrine have required that "success in the prior proceeding is clearly an essential element of judicial estoppel," *Konstantinidis* v. *Chen*, 626 F.2d 933, 939 (D.C. Cir. 1980) (citations omitted), and a "settlement neither requires nor implies any judicial endorsement of either party's claims or theories, and thus a settlement does not provide the prior success necessary for judicial estoppel." *Id.* (citations omitted). *Accord*, *Edwards* v. *Aetna Life Insurance Co.*, 690 F.2d 595, 598-99 (6th Cir. 1982); *City of Kingsport, Tenn.* v. *Steel and Roof Structure, Inc.*, 500 F.2d 617, 620 (6th Cir. 1974). *See also Gottesman* v. *General Motors Corp.*, 222 F. Supp. 342, 344 (S.D.N.Y. 1963). Universal's dispute with RKO was settled. For this reason, the doctrine of judicial estoppel does not apply to this dispute.

II. *The Validity of Universal's Trademark*

Nintendo has challenged the validity of Universal's trademark in King Kong on two grounds. The first is that the documents from which Universal claims to derive ownership of the trademark fail to convey that trademark. The second ground is that King Kong lacks secondary meaning, the fundamental requisite of a § 43(a) trademark.

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3. There is considerable uncertainty as to the source and strength of the doctrine. *See Konstantinidis* v. *Chen*, 626 F.2d 933, 938 (D.C. Cir. 1980) ("judicial estoppel has not been followed by anything approaching a majority of jurisdictions, nor is there a discernible modern trend in that direction."); *Parkinson* v. *California Company*, 233 F.2d 432, 437-38 (10th Cir. 1956) (judicial estoppel "reflects the minority viewpoint which has encountered inhospitable reception outside the state of Tennessee."). *But cf. Sperling* v. *United States*, 692 F.2d 223, 227-29 (2d Cir. 1982) (Van Graafeiland, J., concurring), *cert. denied*, ____ U.S. ____, 103 S. Ct. 3111, 77 L. Ed. 2d 1366 (1983).

A. *Universal's Chain of Ownership*

The first of these two arguments is that the documents resulting from the California litigation do not, as a matter of law, successfully convey a trademark to Universal. This argument raises no disputed facts concerning the documents. Its resolution requires merely that the court decide the legal effect of the chain of ownership on which Universal relies. It is thus appropriate for summary judgment, which is granted for the reasons given below.

Universal's claim of ownership of the King Kong trademark derives from two documents: the Cooper Judgment and the Cooper-Universal Assignment. The Cooper Judgment, entered on December 6, 1976 and discussed above, stated that, as between RKO and Cooper, all rights in the King Kong name, character and story were vested in Cooper, and that to the extent RKO had exercised these rights in the preceding years, it had done so as a constructive trustee for Cooper and would have to pay to Cooper all profits it had earned in this trustee capacity. Shortly after the Cooper Judgment had been entered, in the Cooper-Universal Assignment signed on December 15, 1976, Cooper assigned to Universal all of his rights in the King Kong name, character and story, for $200,000. In Universal's view, then, the King Kong trademark's lineage is as follows. RKO created the King Kong trademark over the period from the 1933 movie's release until 1976 by granting merchandising rights in the King Kong name, character and story. On December 6, 1976, Judge Real held that Cooper, not RKO, owned the rights to this trademark. Then, on December 15, 1976, Cooper sold these rights to Universal, and it is these rights which Nintendo is alleged to have infringed.

Nintendo challenges this lineage, maintaining that trademark rights, such as those Universal claims in King Kong, cannot be bought and sold in the abstract, and that they may be transferred only by means of a controlled licensing program or along with the product they identify or the assets or good will of the business that developed them. Because the transfer of the King Kong trademark from RKO to Cooper did not

comport with these requirements, according to Nintendo it was an invalid transfer. As a result, Cooper had no King Kong trademark rights on December 15, 1976 when he sold all of his King Kong rights to Universal. In response, Universal contends that trademark rights can be transferred by operation of law, as they are in bankruptcy proceedings, and thus the Cooper Judgment transferred RKO's trademark rights to Cooper.

Nintendo's analysis of the nature of a trademark is correct. Trademark rights do not exist in the abstract, to be bought and sold as a distinct asset. They exist only in connection with a business or a product and can be transferred only along with that product or business or its goodwill. The Supreme Court has explained:

> The asserted doctrine is based upon the fundamental error of supposing that a trademark right is a right in gross or at large. . . . There is no such thing as property in a trademark except as a right appurtenant to an established business or trade in connection with which the mark is employed. . . . the right to a particular mark grows out of its use, not its mere adoption, its function is simply to designate the goods as the product of a particular trader and to protect his good will against the sale of another's product as his; and it is not the subject of property except in connection with an existing business.

United Drug Co. v. *Theodore Rectanus Co.*, 248 U.S. 90, 97, 39 S. Ct. 48, 50, 63 L. Ed. 141 (1918). *See also American Footwear Corp.* v. *General Footwear Co., Ltd.*, 609 F.2d 655, 663 (2d Cir. 1979), *cert. denied*, 445 U.S. 951, 100 S. Ct. 1601, 63 L. Ed. 2d 787 (1980) (citing *United Drug*). Because a trademark is not a right in gross, it cannot be transferred except by means of a supervised license or in connection with an ongoing business or some aspect of that business. *See Haymaker Sports, Inc.* v. *Turian*, 518 F.2d 257, 261 (Cust. & Pat. App. 1978) (transfer invalid as an assignment in gross because there was no evidence that transfer of goodwill accompanied purported transfer of the mark); 3 R. Callmann, *The*

Law of Unfair Competition Trademarks and Monopolies § 19.39 at 175 ("where there is no transfer of all or any part of a business, nor control over a license with respect to the nature and quality of goods or services [citation omitted], the purported assignment or license is 'naked,' and therefore invalid [citations omitted]."); E. Vandenburgh, *Trademark Law and Procedure* § 8.10 at 187-89 (1959 and 1979 Supp.). This rule is no less valid where the trademark is in a character name. *See* Brylawski, *Protection of Characters—Sam Spade Revisited*, 22 Bull. Copyright Soc'y U.S.A. 77, 82-83 & n. 29 (1974). Because the trademark transfer from RKO to Cooper was not accomplished by either of the two permissible methods—by a supervised license or along with a sale of business assets or goodwill—that purported transfer would seem to be invalid.

Universal does not dispute this view of trademark law, but contends that trademark rights can also be transferred by operation of law, as they are in bankruptcy proceedings and cites *Johanna Farms, Inc.* v. *Citrus Bowl, Inc.*, 468 F. Supp. 866 (E.D.N.Y. 1978) and Callmann, *supra*, § 19.61 at 241-45. But *Johanna* does not help Universal. In *Johanna*, plaintiffs had sued for an injunction and damages against defendants' allegedly infringing use of a trademarked name for orange and grapefruit juice. One reason plaintiff cited for its argument that defendants did not own the trademark was that defendants had acquired the mark as a transfer in gross at a bankruptcy sale. The court rejected this argument because there was sufficient evidence that the mark had been sold along with the physical assets and goodwill of the bankrupt's business. In so holding, the Court stated:

> As correctly noted by the plaintiff, a similar yet distinct defense of abandonment arises when a Trustee in Bankruptcy attempts to assign a trademark without the corresponding transfer of the good will which the mark symbolizes. . . . In such a case, the transferor may possess the genuine intent to maintain the viability of the mark, but if he transfers the mark without the concomitant good will, his good intentions will not breathe life

> back into the devitalized mark. Such an inescapable fate arises from the nature of a trademark. Since a trademark must be appurtenant to some enterprise to which it is related, if the mark and the goodwill are separated by the Trustee, whether purposefully or inadvertently, the goodwill is abandoned and the underlying rights are destroyed. The net result of such a transfer is a transfer in gross which in trademark law is tantamount to an abandonment.

468 F. Supp. at 879. Callmann, *supra*, states the same rule: "as in all other transfers of trademark and trade names [a bankruptcy transfer] is invalid without the concurrent supporting transfer of the goodwill symbolized by the trademark." *Id.* § 19.61 at 241-42. *See also* Vandenburgh, *supra*, at 191.

Although the Cooper Judgment make RKO a constructive trustee for Cooper and required RKO to give Cooper all profits it had earned from the use and licensing of King Kong, it did not successfully transfer RKO's trademark rights to Cooper. Universal's view of the Cooper Judgment is an attempt to validate the quintessential transfer in gross—a transfer of a trademark without any other aspect of RKO's business. Trademark rights are fragile; they do not exist in the abstract, but only because of the public's association of them with a particular product or business. Exactly what Cooper sold Universal in the Cooper-Universal Assignment is not clear. However, because Cooper never owned the King Kong trademark, he could not have sold it to Universal. Universal thus does not own a trademark in King Kong, and summary judgment for defendant is appropriate for this reason.

B. *Secondary Meaning for King Kong*

In addition, Universal's King Kong lacks secondary meaning as a matter of law—an independent argument for summary judgment. Because of the competing property interests in King Kong, and considering third-parties' unauthorized use of King Kong trademarks for various products, King Kong no longer

signifies a single source of origin to consumers and thus is not a valid trademark.

Universal has contended that trademark law does not require that consumers know *who* the source of a trademarked product is, that the competing property interests in King Kong are copyright interests and thus do not conflict with Universal's trademark right, and that the third-party registrations of King Kong trademarks do not prove actual use of or consumer familiarity with those trademarks, and in any event do not destroy Universal's trademark because "an infringement cannot be justified by the wrongful acts of others."

1. *Competing Property Interests*

To make a successful claim of false designation of origin in violation of § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), Universal must demonstrate that its trademark possesses "secondary meaning"—"[t]he power of a name or other configuration to symbolize a particular business, product or company . . . ." *Dallas Cowboys Cheerleaders, Inc.* v. *Pussycat Cinema, Ltd.*, 604 F.2d 200, 203 n. 5 (2d Cir. 1979). This is because "It is elementary that the function of a trademark is to indicate the origin of the products to which it is attached." *Clairol Inc.* v. *Gillette Co.*, 389 F.2d 264, 269 (2d Cir. 1968). For secondary meaning to exist, the public need not know the name of the manufacturer which produces the trademarked product, but the public must be aware that the product derives from a *single* source. *Processed Plastic Co.* v. *Warner Communications, Inc.*, 675 F.2d 852, 856 (7th Cir. 1982). *See also Dallas Cowboys*, *supra*, 604 F.2d at 203 n. 5 (trademark must "symbolize a *particular* business, product or company." [emphasis added]).

It is this requirement—that a trademark indicate to consumers a single source of origin—that is fatal to Universal's claim.

The current holdings of rights in King Kong are:

1. RKO owns the 1933 movie and its sequel, including the right to use or license stills and footage from these movies.

2. Cooper owns the worldwide book and periodical publishing rights to King Kong.

3. DDL owns the 1976 remake, including the right to use or license its stills and footage.

Exactly what shred of the King Kong character and name Universal owns is far from clear. Under the Cooper-Universal Assignment, Universal owns everything the Cooper Judgment gave Cooper except the rights Cooper reserved in the Cooper-Universal Assignment. Universal thus owns only those rights in the King Kong name and character[4] that RKO, Cooper, or DDL do *not* own. The closest Universal has come to defining its trademark is the following: "it denotes a *particular* gorilla, one who happens to be extraordinarily large and who holds a female captive on top of a large building." Plaintiff's *Memorandum of Law in Opposition to Defendants' Motion for Summary Judgment* 36. Essentially, Universal claims to own a trademark in an extraordinarily large gorilla standing on top of a tall building holding a woman captive. Yet this gorilla must be distinct in image and characteristics from the copyrighted black-and-white photograph of the original 1933 King Kong,

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4. At times Universal has referred to its rights in the King Kong story in addition to those in the name and character. However, the statute under which Universal brings its trademark claim does not permit the trademarking of a story. *See* 15 U.S.C. § 1125 (referring to false designations of origin by means of "words or other symbols"). The Second Circuit Court of Appeals has recently stated that "the image of a cartoon character and some indicia of that character can function as a trademark . . . ." *Warner Brothers, Inc.* v. *American Broadcasting Companies, Inc.*, 720 F.2d 231 at 246 (2d Cir. 1983) (hereafter "Superman"). Because no court has suggested a broader range of protection for a fictional character and because Universal has not urged on us a broader range, we will take this as the maximum range of protection available to the King Kong character.

an enormous gorilla holding Fay Wray captive on top of the Empire State Building. And Universal's gorilla must somehow be distinguishable from the copyrighted still of a giant gorilla holding a woman on top of the World Trade Center in the 1976 remake.

With these specific images foreclosed, Universal is left merely with the remaining rights in the King Kong character. Universal's own explanation of its rights is an indication of the vagueness of Universal's mark: "Universal has the right to license . . . pictures of the King Kong gorilla designed by Universal . . . ." *Universal Mem.* 98. The vagueness of the image in which Universal claims a trademark right violates the fundamental purpose of a trademark: to identify the source of a product and thereby prevent consumer confusion as to that source. *See Dallas Cowboys, supra*, 604 F.2d at 203-05. Fictional characters that have gained trademark status seem generally to have been specific, narrowly defined images. *See, e.g., Warner Bros., Inc.* v. *Gay Toys, Inc.*, 658 F.2d 76, 78 (2d Cir. 1981) (trademark protection extends to "specific ingredients of a successful T.V. series" and thus could include an orange, 1969 Dodge Charger with a Confederate flag emblem, prominently featured on "The Dukes of Hazzard" television series); *Dallas Cowboys, supra*, 604 F.2d at 203-04 & nn. 4 & 6 (trademark in Dallas Cowboys Cheerleaders uniform, a "particular combination of colors and collection of decorations that distinguish plaintiff's uniform from those of other squads"—a uniform with "a western flavor appropriate for a Texas cheerleading squad."). A vaguely defined character lacking a specific image—indeed, one defined mainly by its *difference* from other versions of the same character—is unable as a matter of law to "achieve that fixture or consistency of representation that would seem necessary to constitute a symbol in the public mind." *DC Comics, Inc.* v. *Filmation Associates*, 486 F. Supp. 1273, 1277 (S.D.N.Y. 1980).

The fatal vagueness of Universal's King Kong character is a result of a separate and equally fatal flaw in Universal's trademark claim: the conflicting ownership rights in the King

Kong name and character. At this moment, RKO owns one photographic image of King Kong, DDL owns another and Universal owns some undetermined third image. Universal argues that RKO and DDL own only copyrights in their King Kong images—not trademarks—and that for this reason those rights do not present a barrier to Universal's establishment of secondary meaning in its King Kong character. However, Universal concedes—indeed, emphasizes—RKO's and DDL's extensive use and licensing of their King Kong images. Universal's position is thus that the consuming public, though confronted with extensive merchandising use of two King Kong images that represent *other* product sources, is still able to perceive that there is a distinct *third* image of King Kong that designates a *third* product source—Universal.

As has been frequently stated in this and other opinions, the purpose of a trademark—and a requirement for the statutory protection granted to trademarks—is that the mark indicate to consumers a *single* source of origin. The presence in the market of other, unrelated producers with legally protected images that are very similar to plaintiff's—indeed, whose nature defines plaintiff's mark—is fundamentally inconsistent with this requirement. *See Processed Plastic*, *supra*, 675 F.2d at 856 (public must assume that product comes from a "single though anonymous source"); *Black Hills Jewelry Manufacturing Co.* v. *Labelle's*, 489 F. Supp. 754, 762 (D.S.D. 1980) ("In that there are three plaintiffs [who designated their products "Black Hills Gold Jewelry," "Original Black Hills Gold Jewelry" and "Stamper's Genuine Black Hills Gold Jewelry"], there cannot be a single source of the product in question and plaintiffs are precluded as a matter of law from establishing secondary meaning."), *aff'd*, 633 F.2d 746, 749 (8th Cir. 1980) ("Neither party questions" this holding); *Avrick* v. *Rockmont Envelope Co.*, 155 F.2d 568, 573 (10th Cir. 1946) (the consumer's "mental picture of the desired article must be sufficiently vivid to enable him to exercise the discernment and discrimination of an ordinary member of the purchasing public, otherwise the owner of the trade-marked article has not

established any cognizable right to protection"); Callmann, *supra*, § 18.01 at 18-2 (mark must be "sufficiently distinct from others' marks").

The fact that the rights RKO and DDL hold to King Kong pictures are copyrights, rather than trademarks, does not save Universal. Those copyrights mean that other producers have legal rights to use other King Kong images commercially. The resulting consumer confusion is not reduced by the source of the legal protection for the competing images; indeed, a court in this District held in 1977 that the poster that advertised the 1976 DDL remake had acquired secondary meaning. *Paramount Pictures*, *supra*, 195 U.S.P.Q. at 542. On occasion, as described in the "Facts" section above, sophisticated businessmen have attempted to secure a license in a King Kong product and have been unable to determine which party should issue the requested license. Indeed, the recent balloon draping of the Empire State Building in King Kong's image presented just such an instance. In such a situation, casual consumers can hardly be expected to identify a single source for all King Kong products.

Indeed, Universal itself does not know with any precision what the nature and boundaries of its King Kong rights are. Although the existence of secondary meaning raises factual questions usually inappropriate for summary judgment, *see DC Comics Inc.* v. *Reel Fantasy, Inc.*, 696 F.2d 24 (2d Cir. 1982), where, as here, the relevant facts are undisputed and are so extreme that no reasonable trier of fact could find that secondary meaning exists, summary judgment is proper.[5]

2. *Third-Party Uses*

As further support to demonstrate that Universal's King Kong lacks secondary meaning, Nintendo points to numerous

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5. As support for this proposition, we note that the secondary meaning question requires the drawing of factual inferences no more difficult than those involved in the likelihood of confusion issue, on which the granting of summary judgment has been affirmed by our Court of Appeals. See cases cited in Part III *infra*.

third-party trademark registrations and commercial uses of the King Kong name, or variations of it, often in conjunction with a picture of a gorilla. In response, Universal argues that (1) the registrations are not proof of use, and (2) even if the registrations have been used, they are irrelevant because "an infringement cannot be justified by the wrongful acts of others." *Friedman* v. *Sealy, Inc.*, 274 F.2d 255, 259 (10th Cir. 1959).

While Universal's position may be valid as a general proposition, it is not relevant to the decision before us. Even if the third-party uses Nintendo has cited do not justify an alleged *infringement* by Nintendo, they are relevant to the showing of secondary meaning Universal must make to prevail in this claim. *See Norwich Pharmacal Co.* v. *Sterling Drug, Inc.*, 271 F.2d 569, 572-73 n. 9 (2d Cir. 1959) (plaintiff faces heavy burden in establishing secondary meaning where 33 other pink stomach remedies marketed); *cert. denied*, 362 U.S. 919, 80 S. Ct. 671, 4 L.Ed.2d 739 (1960); 1 J. Gilson *Trademark Protection and Practice* (1978) § 2.09[2] at 2-82 through 2-83. However, there are third-party uses of King Kong marks whose existence Universal does not dispute, and these uses compound the problems with Universal's required demonstration of secondary meaning. While Nintendo's evidence of third-party uses is not independently sufficient to justify the granting of summary judgment on this issue, it does strengthen our holding above that Universal is unable as a matter of law to demonstrate secondary meaning, since such uses add to consumer confusion about the source of King Kong products and make it even less likely that consumers will believe King Kong to designate a single product source.[6]

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6. Nintendo also argues that because King Kong has become part of the English Language and because of the universality of the King Kong theme, the term cannot be a trademark. The former argument is invalid, since even words that are in the public domain may possess trademark significance. *Frederick Warne*, *supra*, 481 F. Supp. at 1196. *See also Superman*, *supra*, at 246-47 (accepting Superman as a trademark); Callmann, *supra*, § 18.01 at 18-2. As to the latter argument, the fact that Universal—or even Merian Cooper—did not create King Kong, does not prevent King Kong from being

III. *The Likelihood of Confusion and the Effect of the Licensing Agreements*

Finally, as a matter of law, there is no likelihood of confusion as to the source of Donkey Kong and by its conduct Universal has so admitted.

A. *Likelihood of Confusion*

Even if King Kong possessed secondary meaning, contrary to the conclusions reached above, and Universal could enforce trademark rights in it, a separate question would remain, whether consumers are likely to confuse Donkey Kong and King Kong. To demonstrate infringement, Universal must show that "there exists a likelihood that an appreciable number of ordinary prudent purchasers will be misled, or simply confused, as to the source of the goods in question." *Lever Brothers Co.* v. *American Bakeries Co.*, 693 F.2d 251, 253 (2d Cir. 1982). Although Universal correctly points out that this is primarily a question of fact, in claims under § 43(a) "courts retain an important authority to monitor the outer limits of substantial similarity within which a jury is permitted to make the factual determination whether there is a likelihood of confusion as to source." *Warner Brothers, Inc.* v. *American Broadcasting Companies, Inc.*, 720 F.2d 231 at 246 (2d Cir. 1983) (hereafter "*Superman*"). The factors that must enter into the analysis of likelihood of confusion, *see Polaroid Corp.* v. *Polarad Electronics Corp.*, 287 F.2d 492, 495 (2d Cir.), *cert. denied*, 368 U.S. 820, 82 S. Ct. 36, 7 L.Ed.2d 25 (1961), are discussed below. However, if a visual comparison reveals that the two marks are not substantially similar, summary judg-

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invested with secondary meaning and thus becoming a trademark. *See Wyatt Earp Enterprises, Inc.* v. *Sackman, Inc.*, 157 F. Supp. 621, 623-24 (S.D.N.Y. 1958) (actual, historical person's name can be trademarked). On the other hand, the commonness of the King Kong name and of gorilla imagery in general supports our conclusion above that King Kong lacks secondary meaning. *See id.* at 624 ("or it may be that a nonfanciful, real name is such a part of the national fabric that all have a measurable interest in its use, to the extent that it acquires no secondary meaning.").

ment for a defendant is appropriate on this question. *See Superman, supra*, at 246; *Durham Industries, Inc.* v. *Tomy Corp.*, 630 F.2d 905, 918 (2d Cir. 1980); *B & L Sales Associates* v. *H. Daroff & Sons, Inc.* 421 F.2d 352 (2d Cir.), *cert. denied*, 398 U.S. 952, 90 S. Ct. 1873, 26 L.Ed.2d 292 (1970).

The facts and disposition of *Superman* are relevant here. In *Superman*, the Court of Appeals of this Circuit affirmed the district court's granting of a motion for summary judgment in a suit for copyright and trademark infringement brought by the owners of the copyrights in various Superman works against the creators of "The Greatest American Hero" television series. In affirming the grant of summary judgment, the Court noted the extensive similarities between Superman and Ralph Hinkley, the allegedly infringing character:

> The *Hero* series contains several visual effects and lines that inevitably call Superman to mind, sometimes by way of brief imitation, sometimes by mention of Superman or another character from the Superman works, and sometimes by humorous parodying or ironic twisting of well-known Superman phrases. Hinkley's suit invests him with most of Superman's powers, and the suit, like Superman's, is a tight-fitting leotard with a chest insignia and a cape. Their outfits differ in that Superman wears a blue leotard with red briefs, boots, and cape, while Hinkley's costume is a red leotard with a tunic top, no boots, and a black cape. In one scene, as Hinkley is running at super speed, smoke emerges from his footsteps, and the sound of a locomotive is heard. A similar scene occurs in *Superman I*, though even without seeing the movie it would be difficult not to be reminded by the *Hero* scene of Superman, who is regularly described as "more powerful than a locomotive." When Hinkley first views himself in a mirror holding his costume in front of him, he says, "It's a bird . . . it's a plane . . . it's Ralph Hinkley." The youngster, Jerry, watching Hinkley's unsuccessful first effort to fly, tells him, "Superman wouldn't do it that way." In a scene with his girlfriend, who is aware of

> the powers that come with the magic costume, Hinkley says, "Look at it this way . . . you're already one step up on Lois Lane. She never found out who Clark Kent really was."

Id. at 237. Despite these similarities, the Court found that:

> The total perception of the Hinkley character is not substantially similar to that of Superman. On the contrary, it is profoundly different. Superman looks and acts like a brave, proud hero, who has dedicated his life to combating the forces of evil. Hinkley looks and acts like a timid, reluctant hero, who accepts his missions grudgingly and prefers to get on with his normal life. Superman performs his superhuman feats with skill, verve, and dash, clearly the master of his own destiny. Hinkley is perplexed by the superhuman powers his costume confers and uses them in a bumbling, comical fashion. In the genre of superheroes, Hinkley follows Superman as, in the genre of detectives, Inspector Clouseau follows Sherlock Holmes. . . . a reasonable jury could not conclude that Hinkley is substantially similar to the Superman character with only a change of name. The overall perception of the way Hinkley looks and acts marks him as a different, non-infringing character who simply has some of the superhuman traits popularized by the Superman character and now widely shared within the superhero genre.

A comparison of Donkey Kong and King Kong reveals equally great differences. Donkey Kong is comical and entertaining. The player tries to maneuver Mario the Carpenter up a structure of pink girders by having him climb ladders and run up ramps, while avoiding cement tubs, barrels, beams and other obstacles. The goal of the games is to maneuver Mario to the top, where he can free a girl from the hands of a big gorilla. The farcical, childlike and nonsexual Donkey Kong creates a humorous impression by jumping up and down and

strutting back and forth to tease Mario. The Donkey Kong gorilla is thus quite different from King Kong, a ferocious gorilla in quest of a beautiful woman who goes on rampages, chases people, crushes them underfoot, or throws them to the ground, and fights with dinosaurs, giant snakes, airplanes and helicopters, all culminating in his tragic and bloody death. Donkey Kong's silly obstacles of pies, cement tubs, birthday cakes and umbrellas, its prim captive girl with her hair in pigtails, and its pleasant colors and humorous sounds, create a totally different concept and feel from the drama of King Kong. At best, Donkey Kong is a parody of King Kong, but a parody of this sort is not an infringement. *Id.* at 242.

Universal has proffered evidence tending to show that Nintendo intended its gorilla character to be King Kong, as well as a survey in which 18% of the video arcade operators questioned said they thought Donkey Kong had been approved by the owners of King Kong. "But if comparison of the works reveals no fair jury issue concerning likelihood of confusion, then intent to copy, even if found from the proffered evidence, would not establish a Lanham Act violation." *Id.* at 247. Similarly, "the availability of survey evidence indicating that some viewers associated the *Hero* series with Superman does not create a *reasonably* disputed factual issue of likelihood of confusion as to source when the works are as different as those in this case." *Id.* at 246. Thus, even if Universal possessed a valid trademark in King Kong, as a matter of law there is no likelihood of confusion between the two marks and summary judgment is appropriate on this ground alone.

Analysis of the likelihood of confusion under the *Polaroid* factors, *see, e.g.*, *Plus Products* v. *Plus Discount Foods, Inc.*, 722 F.2d 999 at 1004 (2d Cir. 1983), confirms this conclusion. First, with respect to the strength of plaintiff's mark, Part II above demonstrated that Universal's mark is not distinctive and fails to identify the goods to which it is appended as emanating from a particular source. This factor weighs heavily against likelihood of confusion. *See Plus Products*, *supra*, at 1006. Second, with respect to similarity of Universal's and

Nintendo's marks, the preceding discussion in this Part shows that, although the marks have obvious similarities, their "total concept and feel" are quite different. This factor also weighs strongly against likelihood of confusion. Third, with respect to the proximity of the products and the likelihood that plaintiff will "bridge the gap," (the closer the products are, the greater the likelihood of confusion), both marks are used on video games, although Universal's game is much less popular than Nintendo's and was introduced after Nintendo's was. In addition, Universal and Nintendo are, in a broad sense, in the same business—the provision of entertainment products and services. Fourth, with regard to actual confusion, although, in the survey described above, 18% of the video arcade operators questioned said they though Donkey Kong had been approved by the owners of King Kong, Universal has submitted no evidence of actual confusion among consumers. This fact is especially significant considering Donkey Kong's great popularity. *See Plus Products*, *supra*, at 1006. Fifth, with respect to the sophistication of the buyers, no evidence has been submitted, and this factor has little weight here. Sixth, with respect to the quality of Nintendo's products, neither side has submitted direct evidence on this point, but it is worth noting that Universal, by licensing the marketing of the Coleco, Atari and Ruby-Spears Donkey Kong products, appears to have indicated satisfaction with the quality of those products. Finally, with respect to Nintendo's good faith, the evidence is in conflict. On the one hand,the Nintendo employee who designed Donkey Kong called his gorilla King Kong, and had seen King Kong movies. On the other hand, Nintendo began designing the game using Popeye characters and switched to the gorilla for only technical reasons, and Nintendo chose the "Kong" name because the Japanese designers believed the word to mean "gorilla" in English. The latter facts argue against a view that Nintendo consciously sought to take advantage of the popularity of King Kong in selling its game.

I conclude as a matter of fact that the greatest weight should be given in this situation to relative strength of the marks, a

factor in my view favoring Nintendo. I recognize, of course, that, contrary to the customary jury instruction concerning the weight of evidence, such weighing is also considered a determination of law. *See Plus Products*, *supra*, at 1004-05. Here, where almost every factor suggests that confusion is not likely, it can be said that no reasonable jury could find likelihood of confusion. For this reason, summary judgment is appropriate.

B. *The Licensing Agreements*

Universal's several agreements with Nintendo's licensees have earned substantial sums for Universal but have weakened its position in this litigation. Coleco, which sells Donkey Kong cartridges for its home video games, agreed to give Universal royalties from its cartridge sales in return from Universal's covenant not to sue. Under the terms of the agreement, Coleco has sold more than six million Donkey Kong cartridges bearing the Nintendo name but no mention of Universal. Universal secured an identical agreement with Atari concerning that company's development of a Donkey Kong game for use with home computers. Universal also reached an agreement with Ruby-Spears, which is developing a television cartoon series based on Donkey Kong, in which Universal receives royalties as well as the right to distribute the series throughout the world.

The question is whether these agreements amount to (1) uncontrolled licensing without a disclaimer, which destroys a trademark, and (2) an admission by Universal that these Donkey Kong products will not be confused with King Kong, or are (1) merely covenants not to sue, and (2) "simple settlement agreements entered into for pragmatic and compelling reasons on both sides."

Uncontrolled licensing of a mark results in abandonment of the mark by the licensor. *Haymaker Sports*, *supra*, 581 F.2d at 261. *See generally* Callmann, *supra*, § 19.50 at 210-11. "The critical question . . . is whether the plaintiff sufficiently policed and inspected its licensees' operations to guarantee the

quality of the products they sold under its trademarks to the public." *Dawn Donut Co., Inc.* v. *Hart's Food Stores, Inc.*, 267 F.2d 358, 367 (2d Cir. 1959). *See also National Lampoon, Inc.* v. *American Broadcasting Cos., Inc.*, 376 F. Supp. 733, 737-39 (S.D.N.Y.), *aff'd on other grounds*, 497 F.2d 1343 (2d Cir. 1974). However, Universal maintains that the agreements are not licenses, they are merely convenants not to sue.

Whatever Universal chooses to call these agreements, they purport to authorize the use of a Universal mark. The extensive uncontrolled use of the mark indicates either Universal's abandonment of that mark or the inability of the mark to designate a single source of origin to consumers.

Viewing the agreements between Universal and the Donkey Kong licensees as settlements, their relevance is as evidence of the likelihood of confusion—evidence to be assessed in light of the details of the agreements. *See Application of E.I. DuPont DeNemours & Co.*, 476 F.2d 1357, 1362-63 (Cust. & Pat. App. 1973) ("It is at least difficult to maintain a subjective view that confusion will occur when those directly concerned say it won't."); *Croton Watch Co., Inc.* v. *Laughlin*, 208 F.2d 93, 96 (2d Cir. 1953); *Mushroom Makers, Inc.* v. *R.G. Barry, Corp.*, 441 F. Supp. 1220, 1231 & n. 45 (S.D.N.Y. 1977), *aff'd*, 580 F.2d 44 (2d Cir. 1978), *cert. denied*, 439 U.S. 1116, 99 S. Ct. 1022, 59 L.Ed.2d 75 (1979). The agreements at issue here provide such evidence: Universal, now suing to prevent Nintendo from marketing its Donkey Kong arcade game has permitted millions of other Donkey Kong products to be sold to consumers. These agreements indicate that Universal did not believe that Donkey Kong would be confused with King Kong. Although the evidence would not independently call for summary judgment on the issue of likelihood of confusion, it reinforces the court's holding above that there is no likelihood of confusion as a matter of law.

IV. *Anti-Dilution Statute*

Nintendo also moves to dismiss Universal's claim under the New York anti-dilution statute, N.Y. Gen.Bus.L. § 368-d. To merit this statute's protection, "a plaintiff must first possess a trademark or name which is 'truly of *distinctive* quality' or one which has 'acquired a secondary meaning in the mind of the public.' [citation omitted.]" *Sally Gee, Inc.* v. *Myra Hogan, Inc.*, 699 F.2d 621, 625 (2d Cir. 1983). There is indication that the statute protects only extremely strong marks. *Id. See also Superman*, *supra*, at 247. In addition, a plaintiff must show sufficient similarity between the two marks to show that the allegedly infringing mark is likely to blur plaintiff's mark. *Sally Gee*, *supra*, 699 F.2d at 624-26.

Because we have held above that King Kong lacks secondary meaning as a matter of law, King Kong cannot qualify under the New York statute's even stricter requirements of distinctiveness. In addition, our holdings above indicate that there is no triable issue as to whether Donkey Kong blurs Universal's purported King Kong mark. *See Superman*, *supra*, at 247-248.

For the reasons stated above, Nintendo's motion for summary judgment against Universal's claims under § 43(a) of the Lanham Act is granted. As a separate matter, Nintendo's motion for summary judgment against Universal's claim under the New York anti-dilution statute is granted for the reasons given above. Universal's complaint also presented claims for common-law trademark and trade name infringement and for unfair competition. These pendent state-law claims are also dismissed.

The action is dimissed and the clerk is directed to enter judgment to this effect.

IT IS SO ORDERED.

[Reprinted at 746 F.2d 112]

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

No. 1208

Argued May 23, 1984. Decided Oct. 4, 1984.

Docket No. 84-7095

UNIVERSAL CITY STUDIOS, INC.,

Plaintiff-Appellant,

—v.—

NINTENDO CO., LTD., Nintendo of America, Inc.,

Defendants-Appellees.

DOUGLAS C. FAIRHURST, New York City (Mary D. Faucher, Sandra Edelman, Townley & Updike, New York City, of counsel), *for plaintiff-appellant*.

JOHN J. KIRBY, JR., New York City (Thomas G. Gallatin, Jr., Shelley B. O'Neill, Catherine E. Palmer, Mudge, Rose, Guthrie, Alexander & Ferdon, New York City, and James L. Magee, Sax & Maciver, Seattle, Wash., of counsel), *for defendants-appellees*.

Before:

FRIENDLY, MESKILL and KEARSE,
Circuit Judges.

MESKILL, Circuit Judge:

This is an appeal from an order of the United States District Court for the Southern District of New York, Sweet, J., granting the motion for summary judgment by the defendants, Nintendo Co., Ltd. and Nintendo of America, Inc. (Nintendo), in the action brought by plaintiff Universal City Studios, Inc. (Universal) under section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1982), the New York antidilution statute, N.Y.Gen.Bus.Law § 368-d (McKinney 1984), and common law unfair competition, trademark and trade name principles. *Universal City Studios, Inc.* v. *Nintendo Co.*, 578 F. Supp. 911 (S.D.N.Y. 1983). We affirm.

BACKGROUND

Nintendo Co., and its wholly owned subsidiary Nintendo of America, has engaged in the design, manufacture, importation and sale of the extraordinarily successful video game known as "Donkey Kong." Nintendo has realized over $180 million from the sale of approximately 60,000 video arcade machines in the United States and Canada. Donkey Kong requires the player to maneuver a computerized man named Mario up a set of girders, ladders and elevators to save a blond pigtailed woman from the clutches of a malevolent, yet humorous gorilla, while simultaneously avoiding a series of objects such as barrels and fireballs hurled at him by the impish ape.

Universal, a giant in the entertainment industry, maintains that it owns the trademark in the name, character and story of "King Kong." The King Kong character and story, of course, need no introduction. Universal traces its ownership of the

trademark from RKO General's (RKO) efforts to exploit the goodwill created by its 1933 film classic of the same name. It asserts that RKO's commercial use of the name and character of King Kong created the trademark; that the rights to the trademark were passed from RKO to Richard Cooper, son and heir of King Kong creator Merian Cooper, pursuant to a judgment resulting from a claim brought by Richard Cooper against RKO alleging that RKO had exceeded the license originally granted by Merian Cooper to make the original King Kong motion picture; and that Richard Cooper subsequently transferred to Universal for consideration the rights he obtained from RKO.[1]

Universal filed its complaint against Nintendo in 1982, approximately nine months after Nintendo began marketing Donkey Kong. Universal alleged that the Donkey Kong name, character and story constituted false designation of origin in violation of 15 U.S.C. § 1125(a) because Nintendo's "actions falsely suggest to the public that [its] product originates with or is authorized, sponsored or approved by the owner of the King Kong name, character and story." Universal also asserted claims based upon the New York anti-dilution statute, N.Y.Gen.Bus.Law § 368-d, and common law unfair competi-

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1. Richard Cooper's complaint against RKO was a cross-claim brought in the course of an action filed in 1975 in the United States District Court for the Central District of California by Universal against RKO, Cooper and the Dino DeLaurentiis Corp. (DDLC). Universal sought, *inter alia*, a declaration that it could proceed with a remake of the King Kong movie because the story was in the public domain. RKO also brought a counterclaim against Universal. The district court held in favor of Universal in the claim and counterclaim and in favor of Cooper in the cross-claim.

RKO and Universal entered into a settlement agreement while the decision was being appealed. The Universal-RKO and Cooper-RKO judgments were subsequently vacated by the United States Court of Appeals for the Ninth Circuit in light of the settlement and the cases were remanded. The district court reinstated the judgment in favor of Cooper in 1981 after it concluded that the judgment was not rendered moot by the Universal-RKO settlement. Both Universal's claim and the counterclaim brought by RKO were dismissed by the district court.

tion, trademark and trade name principles.[2] Neither side requested a jury trial.

After extensive discovery, Nintendo moved for summary judgment. The motion was granted by the district court. Specifically, the court held that (a) Universal failed to derive trademark rights from RKO because the transfer from RKO to Cooper was an invalid assignment in gross; (b) any trademark that Universal purported to own could not be the basis of a successful action under the Lanham Act because it lacked "secondary meaning" as a matter of law; (c) even if Universal's trademark had secondary meaning, there was no question of fact as to whether consumers were likely to confuse Donkey Kong and King Kong; (d) Universal did not state a claim under the New York anti-dilution statute because it lacked a distinctive trademark and there were no triable issues as to whether Donkey Kong blurred the King Kong mark; and (e) the common law trademark, trade name and unfair competition claims should be dismissed.[3] The district court subsequently certified its decision as final under Fed.R.Civ.P. 54(b) even

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2. Nintendo asserted a counterclaim against Universal alleging that Universal contributed to the infringement of its copyright in the original audiovisual material used in Donkey Kong by licensing Tiger Electronics, Inc. to produce an infringing King Kong home video game and further alleging intentional interference with contractual relations, intentional misappropriation of Nintendo's rights in Donkey Kong and intentional interference with Nintendo's present and future business relations. These claims are still pending.

3. The district court rejected Nintendo's claim that, as a result of arguments made in the course of the Universal-RKO litigation, Universal is judicially estopped from asserting trademark rights in King Kong. The district court also refused to accept Nintendo's argument that Universal was, by virtue of various judgments and stipulations in the Universal-RKO-Cooper-DDLC litigation, collaterally estopped from making its claims herein. We need not address the questions of judicial and collateral estoppel, in light of our holding that Universal failed to raise a question of fact on the issue of whether consumers are likely to confuse Donkey Kong and King Kong.

though Nintendo's counterclaim remained unadjudicated.[4] This appeal followed.

DISCUSSION

We turn first to what Universal labels the "main" issue, whether the district court's decision that Universal failed to raise a question of fact as to the likelihood of consumer confusion concerning the origin of Donkey Kong was erroneous. Because we affirm the holding of the district court on this issue, we need not and do not decide if the district court was correct in finding that the King Kong mark was not validly developed and conveyed to Universal and that the King Kong mark has not acquired secondary meaning. Rather, we assume only *arguendo* that the King Kong trademark was validly developed and conveyed to Universal and that the King Kong mark has secondary meaning. *See Durham Industries, Inc.* v. *Tomy Corp.*, 630 F.2d 905, 918 (2d Cir. 1980) ("even if we assume for purposes of this appeal that [counterclaim plaintiff] could demonstrate secondary meaning at trial, since likelihood of consumer confusion could not be established [counterclaim defendant] was entitled to summary judgment").

To be entitled to summary judgment, Nintendo must demonstrate "the absence of any material factual issue genuinely in dispute," *Heyman* v. *Commerce & Industry Insurance Co.*, 524 F.2d 1317, 1320 (2d Cir. 1975) (citation omitted), and that it is entitled to judgment as a matter of law. Fed.R.Civ.P. 56(c). The record must be construed in the light most favorable to Universal and all reasonable inferences must be drawn to its advantage. *United States* v. *Diebold, Inc.*, 369 U.S. 654, 655, 82 S. Ct. 993, 994, 8 L.Ed.2d 176 (1962) (per curiam); *Sterling*

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4. We asked the parties to submit briefs addressing the question whether the district court abused its discretion by certifying the decision granting summary judgment where the issues presented by the counterclaim remained unresolved. We are now satisfied that no abuse of discretion occurred. *See Curtiss-Wright Corp.* v. *General Electric Co.*, 446 U.S. 1, 100 S.Ct. 1460, 64 L.Ed.2d 1 (1980).

National Bank & Trust Co. v. *Fidelity Mortgage Investors*, 510 F.2d 870, 875 (2d Cir. 1975). We hold that Universal failed to raise a question of fact on the issue of the likelihood of consumer confusion and thus Nintendo was entitled to summary judgment on the Lanham Act claim.

"It is well settled that the crucial issue in an action for trademark infringement or unfair competition is whether there is any likelihood that an appreciable number of ordinarily prudent purchasers are likely to be misled, or indeed simply confused, as to the source of the goods in question." *Mushroom Makers, Inc.* v. *R.G. Barry Corp.*, 580 F.2d 44, 47 (2d Cir. 1978) (per curiam) (citation omitted), *cert. denied*, 439 U.S. 1116, 99 S. Ct. 1022, 59 L.Ed.2d 75 (1979). *See also Lever Brothers Co.* v. *American Bakeries Co.*, 693 F.2d 251, 253 (2d Cir. 1982); *Dallas Cowboys Cheerleaders, Inc.* v. *Pussycat Cinema, Ltd.*, 604 F.2d 200, 205 (2d Cir. 1979) ("The public's belief that the mark's owner sponsored or otherwise approved the use of the trademark satisfies the confusion requirement."). "The solution of this problem . . . depends upon a consideration of the facts and circumstances in each case." *Plus Products* v. *Plus Discount Foods, Inc.*, 722 F.2d 999, 1003 (2d Cir. 1983). The factors enumerated in *Polaroid Corp.* v. *Polarad Electronics Corp.*, 287 F.2d 492 (2d Cir.), *cert. denied*, 368 U.S. 820, 82 S. Ct. 36, 7 L.Ed.2d 25 (1961), are utilized and balanced to determine the likelihood of confusion:

> Where the products are different, the prior owner's chance of success is a function of many variables: the strength of his mark, the degree of similarity between the two marks, the proximity of the products, the likelihood that the prior owner will bridge the gap, actual confusion, and the reciprocal of defendant's good faith in adopting its own mark, the quality of defendant's product, and the sophistication of the buyers. Even this extensive catalogue does not exhaust the possibilities—the court may have to take still other variables into account.

Id. at 495. Questions regarding the likelihood of confusion are normally factual in nature. *American International Group, Inc.*, v. *London American International Corp.*, 664 F.2d 348, 351 (2d Cir.1981). Nonetheless, "courts retain an important authority to monitor the outer limits of substantial similarity within which a jury is permitted to make the factual determination whether there is a likelihood of confusion as to source," *Warner Bros. Inc.* v. *American Broadcasting Cos.*, 720 F.2d 231, 246 (2d Cir.1983), and summary judgment is appropriate if the court is satisfied that the products or marks are so dissimilar that no question of fact is presented. *See Durham Industries, Inc.* v. *Tomy Corp.*, 630 F.2d 905, 918 (2d Cir. 1980) (summary judgment granted to counterclaim defendant on issue of likelihood of consumer confusion); *B & L Sales Associates* v. *H. Daroff & Sons, Inc.*, 421 F.2d 352, 354 (2d Cir.) (summary judgment to defendant), *cert. denied*, 398 U.S. 952, 90 S.Ct. 1873, 26 L. Ed. 2d 292 (1970); *Bowmar Instrument Corp.* v. *Continental Microsystems, Inc.*, 497 F. Supp. 947, 954-55 (S.D.N.Y. 1980).

In *Warner Bros. Inc.* v. *American Broadcasting Cos.*, 720 F.2d 231 (2d Cir. 1983), Warner, owner of the trademark and copyright in the fictional character Superman, brought an action against ABC for its production of a television series entitled "The Greatest American Hero." Warner claimed, as does Universal in this case, that the character infringed its trademark. We held that it was proper to compare the "extent to which the allegedly infringing character captures the 'total concept and feel' " of the protected character in order to determine whether there exists a fair jury issue on the likelihood of confusion. *Id.* at 241, 246. We concluded after such an examination that summary judgment was proper in the facts and circumstances of that case. *Id.* at 246-47. The district court conducted a visual inspection of both the Donkey Kong game and the King Kong movies and stated that the differences between them were "great." 578 F. Supp. at 928. It found the Donkey Kong game "comical" and the Donkey Kong gorilla character "farcical, childlike and nonsexual." *Id.* In contrast, the court described the King Kong character and story as "a

ferocious gorilla in quest of a beautiful woman." *Id.* The court summarized that "Donkey Kong[ ] . . . create[s] a totally different concept and feel from the drama of King Kong" and that "[a]t best, Donkey Kong is a parody of King Kong." *Id.* Indeed, the fact that Donkey Kong so obviously parodies the King Kong theme strongly contributes to dispelling confusion on the part of consumers. *Cf. Tetley, Inc.* v. *Topps Chewing Gum, Inc.*, 556 F. Supp. 785, 790 (E.D.N.Y. 1983) ("broad satirical adaptation draws a heavy line between itself and the object of satire"). The district court then evaluated and rejected Universal's claim that a survey performed on its behalf raised a question of fact concerning the likelihood of actual confusion. The court concluded by applying its previous determinations as to the relative strength of the marks,[5] the similarity of the underlying characters, the survey evidence of actual confusion and other factors to the *Polaroid* criteria and concluded that "no reasonable jury could find likelihood of confusion." *Id.* at 929. *Compare American International Group, Inc.* v. *London American International Corp.*, 664 F.2d 348 (2d Cir. 1981) (holding summary judgment for defendant inappropriate where plaintiff's trademark used worldwide for fifty years, defendant's allegedly infringing name incorporated all of plaintiff's trademark, plaintiff and defendant used mark and allegedly infringing name in same market and press discussions of defendant's business misidentified defendant by plaintiff's trademark).[6]

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5. The court found that the King Kong mark lacked distinction and failed to identify the goods it represented as emanating from a particular source based upon its prior conclusion that King Kong lacked secondary meaning. 578 F. Supp. at 928.

6. The district court also determined, as a separate matter, that Universal's agreements with several of Nintendo's licensees to forebear future litigation in exchange for royalty payments "reinforce[d] the court's holding . . . that there is no likelihood of confusion as a matter of law." 578 F. Supp. at 930. Because we hold on other grounds that Universal failed to raise a question of fact on the issue of likelihood of confusion, we need not discuss whether the district court interpreted and applied this factor correctly.

We agree with the district court that the two characters and stories are so different that no question of fact was presented on the likelihood of consumer confusion[7] *Cf. Tetley, Inc.* v. *Topps Chewing Gum, Inc.*, 556 F. Supp. at 789-90 (parody does not constitute infringement or unfair competition where products are so dissimilar that there is no likelihood of confusion as to source, sponsorship or endorsement). The two properties have nothing in common but a gorilla, a captive woman, a male rescuer and a building scenario. Universal has not introduced any evidence indicating actual consumer confusion. *See* discussion *infra* on Universal's survey. Where, as here, the two properties are so different, Universal's claim cannot stand without some indication of actual confusion or a "survey of consumer attitudes under actual market conditions." *Mattel, Inc.* v. *Azrak-Hamway International, Inc.*, 724 F.2d 357, 261 (2d Cir. 1983) (per curiam).

Universal argues that the district court's analysis ignored its "primary" contention, "whether Donkey Kong is confusingly similar to the *name* King Kong." It maintains that it has presented evidence which raises questions of fact on the likelihood of confusion regarding the two names. After reviewing this evidence, we are satisfied that no question of fact exists and thus the decision below should be affirmed.

Universal points to the similarity of the two names, claiming that the use of the word "Kong" raises a question of fact on

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7 Capitalizing on the popularity of the Donkey Kong characters, Nintendo has marketed numerous related items in addition to the videogame. *See* Defs. Exhs. 13-38. Although these items are not themselves at issue in this action, their presence in the market arguably might create confusion among consumers that would not exist if Nintendo marketed only the videogame. Universal has not made this argument, however, and nothing in the record supports such a conclusion. Moreover, since the videogame is by far the dominant source of goodwill for these characters, consumer impressions of these other items are likely to be generated by the videogame, diminishing the possibility that the items will create more confusion among consumers than the videogame itself. Finally, these items have the same "total concept and feel" as the videogame and just as obviously are unlikely to be confused with King Kong.

the likelihood of confusion. We disagree. In order to determine if confusion is likely, each trademark must be compared in its entirety; juxtaposing fragments of each mark does not demonstrate whether the marks as a whole are confusingly similar. *See San Fernando Electric Mfg. Co.* v. *JFD Electronics Components Corp.*, 565 F.2d 683, 685 (C.C.P.A. 1977) ("Each syllable of each mark generates an 'impact,' but the only impact to be considered is that of the whole."); *Commerce Foods, Inc.* v. *PLC Commerce Corp.*, 504 F. Supp. 190, 196 (S.D.N.Y. 1980). The "Kong" and "King Kong" names are widely used by the general public and are associated with apes and other objects of enormous proportions. *See* Affidavits of Jeffrey Rovin and Caroline Riggio, Exhs. DX-2 and DX-3 to J. App. Nintendo's use of the prefix "Donkey" has no similarity in meaning or sound with the word "King." When taken as a whole, we find as a matter of law that "Donkey Kong" does not evoke or suggest the name of King Kong.

Universal places particular emphasis on a telephone survey of 150 arcade, bowling alley and pizza parlor owners and managers who had purchased or leased one or more Donkey Kong games. While a survey may indicate the existence of a question of fact on the likelihood of confusion, *see Mattel, Inc.* v. *Azrak-Hamway International, Inc.*, 724 F.2d at 361, "[t]he survey must . . . have been fairly prepared and its results directed to the relevant issues." *National Football League Properties, Inc.* v. *Wichita Falls Sportswear, Inc.*, 532 F. Supp. 651, 657 (W.D. Wash. 1982). *See Anti-Monopoly, Inc.* v. *General Mills Fun Group, Inc.*, 684 F.2d 1316, 1323-26 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227, 103 S. Ct. 1234, 75 L. Ed. 2d 468 (1983); *Amstar Corp.* v. *Domino's Pizza, Inc.*, 615 F.2d 252, 263-64 (5th Cir.), *cert. denied*, 449 U.S. 899, 101 S. Ct. 268, 66 L. Ed. 2d 129 (1980). We find that Universal's survey is so badly flawed that it cannot be used to demonstrate the existence of a question of fact on the likelihood of consumer confusion.

The individuals surveyed were asked "To the best of your knowledge, was the Donkey Kong game made with the ap-

proval or under the authority of the people who produce the King Kong movies?" Eighteen percent of those responding answered in the affirmative. Universal argues that this result demonstrates the existence of *actual* confusion. *See, e.g., Grotrian, Helfferich, Schulz, Th. Steinweg Nachf.* v. *Steinway & Sons*, 365 F. Supp. 707, 716 (S.D.N.Y. 1973), *aff'd*, 523 F.2d 1331 (2d Cir. 1975). However, the question is unfair because Universal does not claim any ownership rights in the 1933 or 1976 King Kong films. Rather, Universal's trademark is supposedly derived from RKO's efforts to exploit the success of the 1933 movie. The survey question apparently was a transparent attempt to raise an image which Universal does not own in the minds of the respondents, that of King Kong climbing the Empire State Building/World Trade Center with Fay Wray/Jessica Lange in his paw. As such, the inquiry is unfair because no attempt was made to connect Donkey Kong with Universal's alleged trademark in the *name* King Kong.

There are two additional reasons why Universal cannot rely on the survey. First, the survey utilized an improper universe in that it was conducted among individuals who had already purchased or leased Donkey Kong machines rather than those who were contemplating a purchase or lease. *See American Footwear Corp.* v. *General Footwear Co.*, 609 F.2d 655, 661 n.4 (2d Cir. 1979), *cert. denied*, 445 U.S. 951, 100 S. Ct. 1601, 63 L. Ed. 2d 787 (1980); *Dreyfus Fund Inc.* v. *Royal Bank of Canada*, 525 F. Supp. 1108, 1116 (S.D.N.Y. 1981) ("To be probative and meaningful . . . surveys . . . must rely upon responses by potential consumers of the products in question"). Second, the above-mentioned inquiry was an obvious leading question in that it suggested its own answer. The participants were presented with the Donkey Kong-King Kong connection rather than permitted to make their own associations. When the participants were asked "As far as you know, who makes Donkey Kong?" not one suggested Universal or the makers of the King Kong movies. *See American Footwear Corp.* v. *General Footwear Co.*, 609 F.2d at 661 n. 4, 663 (1980); *General Motors Corp.* v. *Cadillac Marine & Boat Co.*,

226 F. Supp. 716, 736 (W.D. Mich. 1964). A survey question which begs its answer cannot be a true indicator of the likelihood of consumer confusion.[8]

Universal posits that the opinions of various video game commentators linking Donkey Kong and King Kong are indicative of consumer confusion.[9] We disagree. The statements cited by Universal recognize that the Donkey Kong theme loosely

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8 We do not doubt that there are some consumers who believe that the producers of Donkey Kong and of King Kong are the same. However, the fact that there may be a few confused consumers does not create a sufficiently disputed issue of fact regarding the likelihood of confusion so as to make summary judgment improper. In *Warner Bros.*, while acknowledging that "there may be some viewers among the television audience who think that the *Hero* series was produced or authorized by those responsible for the Superman movies, television series, or comics," we held that "the availability of survey evidence indicating that some viewers associated the *Hero* series with Superman does not create a *reasonably* disputed factual issue of likelihood of confusion as to source when the works are as different as those in this case." 720 F.2d at 246 (emphasis in original). The same may be said of Donkey Kong and King Kong.

9 Examples cited by Universal are (1) the headline on page 40 of the October 1982 issue of *Videogaming Illustrated*, "[O]ur *Donkey Kong* presentation continues as we look at other gorillas who have had a fondness for women. Prominent among them is King Kong, who has much in common with the video villain"; (2) the statement at page 136 in Craig Kubey's *The Winners' Book of Video Games* (1982), "Donkey Kong [is] a video version of the film classic *King Kong*"; (3) the statement at page 181 in Steve Bloom's *Video Invaders* (1982), "Whoever dreamt up Donkey Kong obviously had the 1933 classic version of King Kong in mind, but why the construction set? This latter-day Kong drags a blond (who in no way resembles the film's heroine, Ms. Wray) up a series of girders and forces a little dope named Mario, who happens to be a carpenter, to rescue her"; (4) the headline on page 26 of the May 1982 issue of *Electronic Games*, "King Kong Goes Coin-Op" (The article itself goes on to say that "[m]embers of the coin-op *cogniscenti* are already swarming all over this charmer that boasts a storyline right our of a '40's 'Popeye' cartoon and graphics to match."); (5) the statement in the column by John Holmstrom in the July 1982 issue of *Heavy Metal* that "Donkey Kong takes elements from two classics—Don Quixote and King Kong"; and (6) the statement in the January/February 1983 issue of *Film Comment*, "[Donkey Kong] begins with King Kong grabbing Fay Wray and climbing to the top of a structure of girders linked by ladders."

evokes the King Kong films. However, none of the statements remotely suggests that the authors were under the impression that Donkey Kong was connected with the company holding the King Kong trademark.

Universal also claims that a letter written in August 1982 by Nintendo of America's Customer Service Manager to the Editor of *How to Win at Donkey Kong*, which states that there is no connection between Nintendo and the producers of King Kong, is an implicit admission that the commentators, and thus consumers, "connect" Donkey Kong with King Kong. This is disingenuous. The letter was written after Universal commenced this action and is an obvious attempt to avoid further legal difficulties. The letter in no way detracts from the plain language of the video commentators which reveals no confusion on their part as to the source of Donkey Kong. Equally irrelevant is Universal's reference to a letter written by Nintendo of America's President to the United States Patent and Trademark Office stating that counterfeit Donkey Kong games were being sold "us[ing] either an identical or a confusingly similar name, including . . . Crazy Kong, and such variations thereof as King Kong and Donkey Kong." This statement was made as part of an effort by Nintendo to show that "King Kong" was confusingly similar to "Donkey Kong" when applied to a duplicate arcade game and adds nothing to the question whether or not Donkey Kong is confusingly similar to Universal's alleged trademark in the King Kong name, character and story.

Finally, Universal argues that statements by Donkey Kong's developer, designer and others indicating that the ideas for the game concept and name of Donkey Kong were derived in part from the King Kong film raises a presumption that the two trademarks are confusingly similar. *See Perfect Fit Industries, Inc.* v. *Acme Quilting Co.*, 618 F.2d 950, 954 (2d Cir. 1980). Universal concedes that the presumption is rebutted where no question of fact exists as to the likelihood of confusion. Br. for Plaintiff-Appellant at 35. *See Warner Bros. Inc.* v. *American Broadcasting Cos.*, 720 F.2d at 247. In light of our conclusion that no reasonable question of fact is presented concerning the

likelihood of confusion, *supra*, Universal is not entitled to the benefit of the presumption of confusing similarity due to intentional copying.

In sum, we find that Universal failed to raise a question of fact whether there was any likelihood that an appreciable number of prudent purchasers are likely to be misled or confused as to the source of Donkey Kong. Consequently, the district court properly granted summary judgment to Nintendo on Universal's Lanham Act claim.

We now turn to the district court's grant of summary judgment for Nintendo on Universal's claim for injunctive relief under the New York anti-dilution statute, N.Y. Gen. Bus. Law § 368-d. Universal need not show a likelihood of confusion as to source to establish and anti-dilution claim. *Warner Bros. Inc.* v. *American Broadcasting Cos.*, 720 F.2d at 248. Rather, Universal "must possess a strong mark—one which has a distinctive quality or has acquired a secondary meaning which is capable of dilution," *Allied Maintenance Corp.* v. *Allied Mechanical Trades, Inc.*, 42 N.Y.2d 538, 545, 399 N.Y.S.2d 628, 369 N.E.2d 1162 (1977). It must also demonstrate a "likelihood of dilution" of its mark. *Sally Gee, Inc.* v. *Myra Hogan, Inc.*, 699 F.2d at 621, 625 (2d Cir. 1983). Universal failed to present any evidence indicating that Donkey Kong will have an adverse effect on King Kong's reputation or deprive the mark of its distinctiveness. *See Sally Gee, Inc.* v. *Myra Hogan, Inc.*, 699 F.2d at 625-26. We find that the names and characters in dispute are so different that no reasonable question of fact was raised on the issue of blurring. *Cf. Dallas Cowboys Cheerleaders, Inc.* v. *Pussycat Cinema, Ltd.*, 604 F.2d at 204-05 & n. 8 (dilution occurred where sexually explicit movie utilized distinctive uniform "almost identical" to that of plaintiffs). Summary judgment for Nintendo was therefore proper.

The district court also correctly dismissed the common law claims because, as discussed *supra*, Universal failed to raise a question of fact on the likelihood of confusion. *Mattel, Inc.* v. *Azrak-Hamway International, Inc.*, 724 F.2d at 360-61.

The judgment of the district court is affirmed.

[Reprinted at 615 F. Supp. 838]

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

NO. 82 Civ. 4259 (RWS)

JULY 29, 1985

UNIVERSAL CITY STUDIOS, INC.,

Plaintiff,

—v.—

NINTENDO CO. LTD. and NINTENDO OF AMERICA, INC.,

Defendants.

Townley & Updike, New York City, for plaintiff; Douglas C. Fairhurst, Mary D. Faucher, Lawrence C. Fox, New York City, *of counsel*.

Mudge Rose Guthrie Alexander & Ferdon, New York City, Sax & Maciver, Seattle, Wash., for defendants; John J. Kirby, Jr., Thomas G. Gallatin, Jr., Shelley B. O'Neill, Catherine E. Palmer, Robert J. Gunther, Jr., New York City, *of counsel*.

Nintendo Co., Ltd. is a corporation organized under Japanese law and founded in 1889, with its principal place of business in Kyoto, Japan, and branches in five other Japanese cities. It is engaged in the manufacture, assembly and sale of video arcade games, hand held games, playing cards, mah-jong games, tuggle board games and amusement arcade games. Nintendo of America, Inc. is a corporation organized under the laws of the State of Washington in 1981, with its principal place of business in Redmond, Washington. Nintendo of America, Inc. is engaged in the importation, assembly, manufacture and sale of video arcade games and table top games, as well as the importation of hand held video games. During its fiscal year ending September 30, 1981, the sales of Nintendo of America, Inc. were approximately $4.7 million and its net revenues were approximately $64,000. For fiscal 1982 Nintendo had sales of $111 million and net revenues of $22 million.

Universal is a wholly owned subsidiary of MCA, Inc. having its principal place of business at 100 Universal City Plaza, Los Angeles, California. It is engaged generally, through its "Universal Pictures" division, in the business of producing and distributing motion pictures in the United States and throughout the world. Its corporate affiliate, Merchandising Corporation of America, Inc. ("Merchandising"), is in the business of licensing various Universal trademarks and characters for use by others in connection with the sale of merchandise and services. In 1984, MCA's net income was $95 million, and sales were $1.6 billion.

Steve Adler ("Adler") is a former vice president of MCA, Inc. and was involved in licensing Universal's rights in King Kong to Tiger Electronics.

Minora Arakawa is president of Nintendo of America.

Ben Cooper, Inc. is a manufacturer of King Kong Halloween masks under license from Universal.

Coleco Industries, Inc. ("Coleco") is a medium size toy company based in Hartford, Connecticut that obtained a

license from Nintendo in November 1981 to produce a Donkey Kong videogame cartridge for its home video system, ColecoVision. Universal in April 1982 was interested in investing in Coleco, possibly entering into joint undertakings, and in negotiating fees as royalties based on Universal's King Kong claims.

Joseph Di Muro ("Di Muro") is a lawyer, the former general counsel of Universal. He retired in April, 1977 and has since served on a daily basis as a consultant. He maintains an office at Universal, is consulted by senior management, supervised the California litigation and is regarded as the most knowledgeable person at Universal concerning its King Kong rights. He has had thirty-five years of experience in the movie industry.

Donkey Kong is an electronic video arcade game developed by Nintendo in 1981 and sold successfully in the United States. It portrays a woman, captured by an ape and held captive at the top of a building. Mario the carpenter, operated by the game player, seeks to reach the maiden by negotiating a series of chutes and ladders, dodging obstacles and acquiring prizes. The game is made up of game boards of ascending difficulty to operate.

Arnold Greenberg ("Greenberg") is president of Coleco, which was founded by his father.

Robert D. Hadl ("Hadl") is a lawyer with experience in the Copyright Office and at the Federal Communication Commission and is vice president of Universal. He was formerly in charge of legislative matters for Universal and in the spring of 1982 he had, among other things, general responsibility for controlling outside litigation costs. He rendered advice in connection with the discussions with Nintendo and the initiation of this litigation.

King Kong is an ape, the subject of a serial and book by Marian Cooper which became the subject of a well-known movie *King Kong* in 1933. For the few who may not know

because of youth, or reclusion, the movie at its climax portrays the giant ape astride the Empire State Building, holding the heroine captive, while the hero seeks to achieve her rescue. The story and many of the scenes in the 1933 movie were repeated in the 1976 remake.

Steven Kroft ("Kroft") is a lawyer, a member of the firm of Rosenfeld, Meyer & Sussman. He was responsible for conducting the California litigation and conferred with Hadl about Donkey Kong. He did not testify, either at the trial or by deposition.

Howard C. Lincoln ("Lincoln") is a lawyer, formerly a partner of Sax and Macivor, Nintendo's counsel. He was responsible for the incorporation of Nintendo of America, Inc. and is now its senior vice president and general counsel.

O.R. Rissmann ("Rissmann") is president of Tiger.

Michael S. Schwefel ("Schwefel") is a lawyer and senior vice president and general counsel of Coleco. He participated in the meetings with Universal and Nintendo in April and May 1982.

Sidney Jay Sheinberg ("Sheinberg") is a lawyer and President and Chief Operating Officer of MCA and Universal. He participated in the California litigation and was the principal Universal executive involved in setting Universal's policy toward Nintendo and its licensees. Sheinberg is the Willie Keith of this story: "the event turned on his personality as the massive door of a vault turns on a small jewel bearing." (Caine Mutiny, p.i). He acknowledged that the issues surrounding King Kong have had a special attraction for him. As he stated, "The King Kong case was my case and I was involved with it. I don't remember there being an intermediary. It had been said with some jest in Hollywood on my tombstone the two words that will go on are King Kong and Sony. Maybe they will add a third." Sheinberg's performance, naturally, is close linked to Universal's, since of his over $4.5 million salary in 1984, $4 million consisted of vested Universal stock rights.

Laura Sifuentes ("Sifuentes") is a lawyer and was a vice president of MCA, involved in licensing, including King Kong. She was discharged by Universal in August of 1982 as a result of events unrelated to Nintendo.

Tiger Electronics Toys, Inc. ("Tiger") is a toy manufacturer which obtained a King Kong license from Universal.

The Events

After the California litigation had been completed with the results described in the earlier opinion, Universal was uncertain as to its course of conduct with respect to its rights in Kong Kong. As a consequence of its success with the movie *Jaws* and its attendant licensing program, it was acutely aware of the value of merchandising rights, a term well understood in Hollywood if not elsewhere. Some defined merchandising rights as those rights which are derived from a particular work and have commercial value through the grant of the use of a name or symbol or picture on a tee shirt or some other artifact, and Sheinberg on June 18, 1980 requested Di Muro's advice on the subject.

Di Muro in turn consulted Kroft and then advised Sheinberg that Universal had "all 'King Kong' merchandising rights," without further defining those rights. Although RKO did not challenge Universal's right to "merchandise" King Kong, it insisted that no graphics from the 1933 picture could be used without its permission. It was also recognized that DDL's permission would be required to use pictures from the 1976 remake. By the fall of 1981, the only exercise by Universal of its merchandising rights in King Kong was the continuation of a prior license granted to Ben Cooper, Inc., relating to the manufacture and sale of King Kong masks and costumes.

The Donkey Kong video arcade game was developed by Nintendo in March, 1981. Nintendo conducted a trademark search of the name "Donkey Kong" in Japan, which indicated that the name was available for use and obtained a Japanese trademark registration for the name Donkey Kong. In June,

1981, Nintendo of America, Inc. conducted a trademark search of the name "Donkey Kong" in the United States and determined that the name could be registered as a trademark in the United States. On July 30, 1981, Nintendo of America, Inc. obtained United States Copyright Registration No. PA 115-040 for its Donkey Kong audio-visual work.

In the summer of 1981, Rissmann of Tiger travelled to Japan. While in Tokyo, he saw Nintendo's Donkey Kong video arcade game and decided that Tiger should produce a video game similar to Donkey Kong. In August 1981 Tiger sent a letter to Universal requesting a King Kong license for video games and handheld electronic games. Tiger requested that the license agreement be consummated "as speedily as possible." Universal executed an exclusive license with Tiger in September 1981 which provided that Tiger could use King Kong in connection with handheld and tabletop electronic games and home video cartridges.

Sifuentes regularly conducted a trademark search when entering into a license agreement, and on September 25, 1981 she received the results of a trademark search report on King Kong. This report revealed numerous third-party trademark registrations of the King Kong name often in conjunction with a picture of a gorilla. Universal's merchandising and law departments decided not to take any action against those listed in the report because there was very little activity in licensing King Kong at Universal. Di Muro was consulted by Sifuentes in connection with obtaining stills from the 1933 King Kong movie from RKO for use by Tiger in connection with the granting of the Tiger license. Sifuentes at the time was unaware of Donkey Kong, and Tiger explained its interest as just an interest in old movies.

By October 1981, 4,000 Donkey Kong arcade games were being sold a month. In November 1981, Coleco reached an oral agreement with Nintendo to use Nintendo's Donkey Kong name and characters in connection with video game cartridges and electronic tabletop games. Coleco began promoting its Donkey Kong video game cartridges immediately after it

reached this oral agreement and announced that the Donkey Kong cartridge would be featured as part of its new ColecoVision system. Coleco received substantial advance orders for its ColecoVision system featuring the Donkey Kong cartridge during the first four months of 1982. Coleco's formal license from Nintendo was signed on February 1, 1982, and provided for payment of a fixed sum and additional royalties of $1.40 for each Donkey Kong video cartridge sold and $1.00 for each tabletop game sold. The agreement also required that Coleco would not "do or cause to be done any act or thing contesting or in anyway impairing or tending to impair Nintendo's rights in its trademark 'Donkey Kong.' "

In December 1981 Sifuentes, in connection with a token use application, affixed "King Kong" on another manufacturer's unrelated game which contained no depiction of a King Kong character and sold the game to Universal Tours, and in January, 1982 Universal received the results of a King Kong trademark search which revealed Nintendo's pending Donkey Kong application. Sifuentes discussed the pending Donkey Kong application with Adler, another vice president of merchandising, and together they went to an arcade to play the game. After analyzing the game play, Sifuentes and Adler concluded that no one was really interested in licensing King Kong and that Tiger probably planned to use its King Kong license merely to copy Donkey Kong. They discussed whether they should continue offering licenses for King Kong. No action was discussed or taken to challenge the Donkey Kong application.

In February 1982, Dunbar Electronics ("Dunbar") contacted Universal and expressed an interest in licensing King Kong for watches and handheld electronic games. Adler and Sifuentes agreed to meet with Dunbar at the Toy Fair later that month. At the meeting, the Dunbar representative proffered his own trademark search report listing Nintendo as the owner of Donkey Kong and inquired about Universal's position with respect to Nintendo's product. Subsequently, in late February or early March, after the Toy Fair in February and conversa-

OPINION

SWEET, *District Judge.*

From the outset, this case has involved two gorillas, King Kong and Donkey Kong, and the rights of their respective owners, plaintiff Universal City Studios, Inc. ("Universal"), and defendants Nintendo Co. Ltd. and Nintendo of America, Inc. (collectively "Nintendo"). Universal initially sought to enjoin Nintendo from selling its Donkey Kong electronic arcade game, claiming that the game infringed Universal's rights in King Kong. With that issue resolved in favor of Nintendo by way of summary judgment, what remain are Nintendo's counterclaims, which seek damages arising out of Universal's conduct. Universal views its conduct as the good faith assertion of rights not yet determined at the time of the events in question. Nintendo asserts that Universal misappropriated Nintendo's Donkey Kong property and was thereby unjustly enriched, that Universal tortiously interfered with Nintendo contracts and Nintendo's licensing program, and that Universal vicariously infringed Nintendo's copyrights. Based on the facts and conclusions stated below, Nintendo is entitled to judgment, costs, and damages, both actual and exemplary.

Counsel for both parties were learned, highly skilled and enjoyable advocates who agreed on at least one critical element: it was for the court to view this voluminous record and the seven days of testimony in this bench trial to determine the credibility of the witnesses and the attendant facts which will control the theories and authorities to be applied. In order to accomplish the task, it is necessary to consider the framework of the issues, the prior proceedings, the participants in the transactions at issue, the knowledge and intent of the participants as the events occurred, and the rights involved. The facts so determined must be applied to Nintendo's counterclaims of unjust enrichment, tortious interference with contract, and vicarious infringement of copyright. What must be delineated is the boundary between the aggressive but legitimate assertion of questionable rights in intellectual property and the reckless disregard of the rights of others.

The Issues

Universal in the fall of 1981 had certain rights to King Kong that derived from prior litigation and its settlement. These were viewed by Universal as merchandising rights with certain acknowledged limitations, in particular the inability to replicate any of the images of King Kong contained in the 1933 and 1976 King Kong movies. There was no active program to capitalize on these rights or to protect them.

Also in 1981, Nintendo started selling its Donkey Kong electronic arcade game, first in Japan, where it was developed, and then in the United States. In the fall of 1981, Tiger Electronic Toys, Inc. ("Tiger") sought a license to use the name King Kong in connection with its electronic game, and thereafter the officers of Universal began to focus on Donkey Kong and its success as an arcade game.

By April of 1982, the Donkey Kong arcade game had reached the notice of Universal's top executives, who then were considering a relationship with Coleco Industries, Inc. ("Coleco"), a toy maker, either by way of an investment or a joint venture. Aware of Coleco's intent to produce a home video cartridge version of Donkey Kong under license from Nintendo, Universal's representative at a meeting with Coleco for the first time voiced the claim that Donkey Kong violated Universal's rights in King Kong. The following day telexes were sent to Coleco and Nintendo asserting Universal's rights. Universal made or sought no formal opinions or writings clarifying its rights. Coleco was on the threshold of entering the market place with its fully developed Donkey Kong game, and in an exercise of business judgment, Coleco capitulated to Universal's demand and entered into an agreement to pay to Universal 3% of its gross revenues from the sale of Donkey Kong cartridges in exchange for a covenant by Universal not to sue.

After two meetings with Universal representatives, Nintendo declined to make any concessions to Universal. In the course of these meetings, Universal's representative stated that Universal's litigation had been a profit center for the company and

that Nintendo should start saving its money for legal fees. On June 6 this action was commenced with accompanying press releases.

Thereafter Universal successfully convinced two other Nintendo licensees to enter into Coleco-like agreements. From these agreements, Universal has received to date $4,765,371.48. In January 1983, having received a list of Nintendo's licensees in discovery, Universal's counsel wrote to the licensees, threatening litigation if agreements with Universal were not reached. As a consequence of these letters, Nintendo lost $94,219.41 in guaranteed royalties due under certain of its license agreements.

Nintendo, in the course of this litigation has incurred substantial legal fees and now seeks damages on its counterclaims for the (1) misappropriation of its rights in Donkey Kong and Universal's consequent unjust enrichment arising out of its agreements with Nintendo's licensees, (2) vicarious copyright infringement by Universal arising out of the distribution of the Tiger/King Kong home video cartridge, and (3) tortious interference with Nintendo licenses. Universal has moved to dismiss these claims on legal and factual grounds.

Universal's rights, merchandising or otherwise, Universal's intent and knowledge in asserting those rights, and the consequences which flowed from Universal's acts must be determined.

Prior Proceedings

Universal is, and has been, no stranger to the courts. Its rights in King Kong resulted from agreements arising out of litigation commenced by Universal in 1975 to challenge the rights of RKO Radio Pictures, Inc. ("RKO") in its 1933 movie *King Kong* and its grant to the Dino De Laurentiis Corporation ("DDL") to remake the movie (the California litigation). Universal successfully sought to establish that the King Kong story was in the public domain. Involved also were the rights of Richard Cooper, the heir of Merian C. Cooper, the author of the King Kong story which first appeared in print in 1932. The

California litigation was ultimately resolved by way of settlement and judgments entered in that litigation, as found in this court's opinion reported at 578 F. Supp. 911 (S.D.N.Y. 1983) (the earlier opinion).

In the earlier opinion on cross motions for summary judgment, Nintendo's defenses to Universal's claims of infringement were upheld, and the complaint was dismissed on the overall holding that Nintendo had violated no Universal rights. The grant of summary judgment was upheld on appeal on the ground that there was no likelihood of confusion between Donkey Kong and King Kong. *Universal City Studios, Inc. v. Nintendo Co., Ltd.*, 746 F.2d 112 (2d Cir. 1984). Nothing in the record to date has altered any of the findings and conclusions previously stated, and they are adopted and incorporated as part of the instant findings and conclusions.

Thereafter, the parties continued their discovery on the unresolved Nintendo counterclaims and from May 20 to 28 presented evidence in a bench trial. It is upon that evidence, including the depositions and exhibits as well as the facts previously found in the earlier opinion, that the following facts and conclusions are based.

The Participants

Because of the recurrence of such emotionally and legally charged concepts as bad faith, tortious interference, and vicarious infringement, it is necessary to examine not only the parties' corporate identities, but also the knowledge and intent of certain of their officers during the events which took place from the fall of 1981 through 1983. Because corporate knowledge and intent is a mosaic made up of smaller bits and pieces of motivation held by various Universal officers and employees, from its Chief Operating Officer to its Divisional Officers, as well as its lawyers, in house and outside, for convenience and hopefully clarity the parties will be described and the participants will be listed alphabetically, with their principal role in the transactions at issue summarized.

tions with officers of Dunbar, Sifuentes had "a long conversation" with Di Muro concerning Universal's trademark and copyright rights in King Kong and what rights in King Kong Universal could license. During this discussion, it was decided that Universal should cease licensing King Kong because it had no rights in King Kong to license and that it should terminate its two King Kong licensees, Ben Cooper, Inc. and Tiger, and refuse to grant a license to Dunbar. Sifuentes described the meeting with Di Muro as follows:

> Generally, we discussed the rights of Universal as they emanated from the various aspects of the lawsuit with RKO and Paramount. And we discussed licensing and what it entailed; we discussed trademark and copyright rights as it related both to licensing and to the lawsuit; and we discussed the various "King Kong" movies and the grant by the, I think, original owner, of the right to Universal. And after a long conversation, we decided that we (Universal/MCA) didn't have any rights in King Kong to license.

No record was made of this conference, but no action was taken in response to Dunbar's inquiry concerning Donkey Kong's rights. The Tiger license was cancelled as recounted below, the Ben Cooper license expired, and King Kong was removed from the list of Universal properties to be licensed.

Di Muro denied this conversation, but Sifuentes' testimony, albeit by deposition, is credible and consistent with both previous and subsequent events. It is also consistent with Di Muro's overall conservative approach and advice. Di Muro was a credible, consistent witness in the large, but even "Homer sometimes sleeps." *Don Juan*, Lord Byron, Chapter 3, St. 98. There was no affirmative action taken after the meeting; no document was prepared in connection with the conversation or subsequent to it. The event was transitory and advisory in nature, and its significance is evident only in retrospect. Aside from the suggestion that Sifuentes is a disgruntled employee, there is no reason for her to have created

the conversation which was of some importance to her in accomplishing her job, but of far less significance to Di Muro. The disgruntled employee explanation is countered by Sifuentes' invocation of the attorney/client privilege on the occasion of her first deposition and by a review of her entire deposition testimony, which regrettably is all that is available to test her credibility. However, the task is not unknown to the factfinder. *See In Re Air Crash Disaster, Etc.*, 635 F.2d 67, 73 (2d Cir. 1980); *Devitt and Blackmar*, § 73.02.

In April 1982, Sheinberg sought advice from Di Muro concerning Universal's, and presumably Sheinberg's, plan to produce their own King Kong movie. In a memorandum dated April 8, 1982, Di Muro advised Sheinberg that "RKO owns . . . the visual representation of the King Kong ape" and instructed that "Universal's ape must be designed as an independent, original creation, without reference to stills or other reproductions of RKO's ape or DeLaurentiis' ape."

By the spring of 1982, Donkey Kong had become one of the most popular video arcade games, second only to Pac-Man. In April 1982 Sheinberg sent Hadl a copy of a "snippit" from a trade publication relating to Donkey Kong. This document was not further identified, but it is a reasonable inference that it reported on Donkey Kong's success. Sheinberg's King Kong nerve was again touched, and he asked Hadl to look into Donkey Kong and to determine whether it violated rights of Universal.

Hadl took his children to play the game and testified at trial that he believed Donkey Kong was substantially similar to the King Kong movie and reported back to Sheinberg that he thought Universal had a claim. There are no documents or written analysis attendant upon this decision, and Hadl in his testimony gave no rationalization for his conclusion. Hadl then called Kroft and asked him to play the game and testified that Kroft reported back that he thought Universal had a claim. Hadl directed Kroft to prepare a complaint and get a telex ready to send to Nintendo. During this conversation, Hadl and Kroft did not discuss Universal's rights in King Kong or King

Kong merchandising, and Hadl does not know if Kroft talked to anyone else concerning Universal's claim at this time. There was no direct evidence of any internal Universal deliberation or consultation with respect to the direction to prepare a telex and a complaint. Hadl subsequently repeated Kroft's advice to Sheinberg.

No contemporaneous documents have been presented relating to these conclusions, and Kroft was not a witness by deposition or at the trial. There was no amplification or justification of Kroft's alleged statement that Universal had a claim or any analysis of the merits of the professed claim. It is inferred from the absence of Kroft's testimony and his continuing close relationship with Universal that had he testified his testimony would have been unfavorable to Universal on the subject of its trademark claim. There was no testimony presented to lead to the conclusion that Hadl had the executive responsibility for directing the preparation of a complaint to enforce Universal's rights.

From the facts already found, it is rational to infer that the direction to consult Kroft and to prepare the complaint came from Sheinberg, the only other person at the executive level with whom the Donkey Kong matter was discussed, despite Hadl's testimony that he consulted Kroft because of the latter's role in the California litigation. There is no date in April fixed for the Hadl family game playing or the Kroft conversations. In addition, all of the initial activities relating to Coleco and Nintendo were undertaken without consultation or reference to those officers usually involved in licensing at Merchandising or without reference to Di Muro, the in-house expert on King Kong rights. It is a reasonable inference that all of these activities took place under Sheinberg's direction in preparation for the anticipated meeting with Coleco to discuss the future relationship between Universal and Coleco. Sheinberg during this period knew of the impending meeting with Greenberg of Coleco, at which a claim of rights in King Kong would at the least become a bargaining chip.

On April 27, 1982, Sheinberg and Greenberg met with other officers of both companies to discuss among other things a

possible investment in Coleco by Universal. At the meeting, Greenberg described Coleco at length for Sheinberg, including Coleco's imminent plans to introduce ColecoVision, featuring the immensely popular Donkey Kong cartridge. At that point Sheinberg interjected, saying that Universal "owned King Kong" and that he had seen the Donkey Kong game and thought that it would infringe on Universal's rights. Greenberg was surprised at this suggestion, which struck at the heart of Coleco's marketing plans. He offered to consult with his lawyers and look into the matter further. Sheinberg advised that there could be no further business discussions between the two companies until the question of Donkey Kong was resolved.

After the meeting with Coleco, Sheinberg told Hadl to add Coleco as a recipient of the telex, and they discussed getting a royalty from Coleco on sales of Donkey Kong products. Hadl, in turn, told Kroft to add Coleco to the telex he was preparing regarding Donkey Kong.

On April 28, 1982, without any further consultation or documentation, Universal sent telexes to Nintendo and Coleco claiming that Universal was the "sole and exclusive owner of all rights (except book publishing rights) in and to the name, title, character, and story 'King Kong' and 'Kong' . . . including, without limitation, the right to exploit, license and sell games, toys, video displays and other forms of merchandising based upon or using the 'King Kong' name, title and character." Universal further stated that Donkey Kong infringed on its exclusive rights and demanded (1) that all marketing of Donkey Kong cease, (2) an accounting for all profits, and (3) a destruction of inventory. Court actions for "restraining orders, injunctions, and damages" were threatened, and an invitation to settle within forty-eight hours was offered.

After receiving the telex, Nintendo reviewed its Donkey Kong trademark application and search, reviewed an opinion from trademark counsel regarding Nintendo's ability to use Donkey Kong as a trademark, commissioned a King Kong trademark search, and tried to determine whether and how Donkey Kong could infringe on the King Kong movies.

Between April 27 and May 6, 1982, Coleco and Universal had several discussions concerning settlement of Universal's claims to all the rights to King Kong. By May 5, 1982, Coleco and Universal had agreed to settle their dispute. Pursuant to the agreement, Coleco would receive a covenant not to sue from Universal which would obligate Coleco to pay Universal royalties on sales of Donkey Kong products. It was understood that if Coleco could convince Nintendo to settle, Universal would reduce the royalty rate Coleco would have to pay Universal. Coleco convinced Nintendo to meet with Universal on May 6, 1982, without advising Nintendo representatives of the agreement with Universal. The possibility of a Universal investment in Coleco or joint undertaking was still unresolved. The covenant not to sue was executed on May 12, and Universal did not seek or obtain any right to control or supervise Coleco's exploitation of Donkey Kong.

Shortly after Universal had sent the telexes to Nintendo and Coleco asserting its rights in King Kong, Hadl summoned Sifuentes into his office. He was upset upon learning that Universal had licensed Tiger, and "wanted to know on what basis [Universal] had made a license" noting the Tiger agreement to be a lousy license because it offered only a small return to Universal and because its exclusivity provision could prevent Universal from concluding its agreement with Coleco. Sifuentes explained that she had discussed the Tiger license initially with Di Muro and that they "had decided to go ahead," and that Di Muro had decided sometime after the February Toy Fair that Universal should cease licensing King Kong and that the Tiger license should be terminated because Tiger was probably going to copy Donkey Kong. Sifuentes also testified that Hadl's concern resulted from the fact that this was a "Sheinberg project."

On May 4, 1982, Universal advised Tiger by mailgram that it would terminate Tiger's license agreement unless Tiger submitted King Kong materials for Universal's approval. With a cover letter dated May 5, 1982, Tiger submitted various materials to Universal. After viewing Tiger's King Kong game,

Hadl "thought the two games [Donkey Kong and King Kong] were substantially similar."

On May 6, 1982, representatives from Universal, Coleco and Nintendo met. Present at the meeting for Nintendo were Arakawa and Lincoln. Schwefel and Coleco's outside legal counsel were present on behalf of Coleco. Hadl and Kroft were present on behalf of Universal. Universal asserted it owned all rights in King Kong and that Donkey Kong was an infringement of those rights. The Nintendo representatives questioned the source of Universal's rights in King Kong. Lincoln reported that Nintendo had commissioned a trademark search of "King Kong" after receiving Universal's telex that the trademark search report revealed numerous longstanding users of "King Kong," and that Universal had only recently applied for a trademark registration of King Kong. During the meeting Nintendo and Coleco representatives caucused apart from Hadl and Kroft. In response to Nintendo's request for proof of Universal's ownership in King Kong, Kroft stated that the question of Universal's rights was "open and shut." Hadl said Kroft would send a chain of title which would show Universal's rights to King Kong. The meeting terminated without resolution and without Nintendo learning of the Coleco agreement with Universal. On May 7, another Universal/Coleco meeting was held to discuss a $30 million purchase of Coleco debentures by Universal.

On May 8, 1982, Universal sent a mailgram to Tiger terminating Tiger's license and stating:

> [T]he advertising, packaging and catalog material which you have prepared and distributed without our prior approval makes clear that the display board and concept of your "King Kong" mini-arcade tabletop electronic game is substantially similar to the display board and concept of a popular arcade game called "Donkey Kong" currently owned and marketed by another company . . . we hereby terminate the license agreement and demand that you immediately cease and desist from the design, manufacture, sale, distribution, promotion or advertising

of any products entitled "King Kong" (or any variation thereof).

Although there is no direct evidence on the subject, it is appropriate to conclude that Universal sought to cancel the Tiger license principally to clear the way for its intended licensing program then underway with Coleco.

Nintendo telephoned Hadl on May 11, 1982 and stated that it had received mixed signals from the May 6, 1982 meeting. On the one hand, Universal had threatened a lawsuit, and, on the other hand, it wanted to do business with Nintendo. Hadl stated that the signals were not mixed; "they were mutually exclusive." According to Hadl, Nintendo would have to come to terms with Universal before the two companies could have any other business dealings. Nintendo again insisted that Universal explain the source of its rights and specifically demanded a chain of title. Hadl stated that Kroft would send Nintendo the chain of title. No chain of title or other explanation of Universal's alleged rights was ever sent. Universal also advised Nintendo that the time period for settlement would only extend to the Consumer Electronics Trade Show to be held in June, 1982.

On May 12, Sifuentes forwarded to Hadl the collection of King Kong memos and material which had been discussed with DiMuro. On May 12, Coleco and Universal formally agreed upon the covenant not to sue. It was also understood that Universal would not seek preliminary injunctive relief which might interfere with the Coleco marketing of its Donkey Kong product. Thereafter Coleco was advised by Universal's investment banker, Felix Rohatyn, that Universal was no longer interested in the debenture purchase. On May 14, 1982, Hadl admitted to Lincoln that the Tiger game was a "knock-off" of Donkey Kong and stated that Universal had cancelled the license because it was apparent that Tiger was infringing Nintendo's copyright in Donkey Kong.

On May 18, 1982, Tiger informed Hadl by letter that it considered its license "to be in full force and effect" and

proceeded to question Universal's rights in King Kong, asserting the following:

> Tiger is perplexed concerning MCA's claimed right to the ownership and control of the title King Kong in the United States. Tiger now knows that neither MCA nor Universal City Studios, Inc. had federally registered any such claim of ownership or control under the Trademark Laws of the United States at the time MCA induced Tiger to sign the Merchandising License Agreement. It was not until January 18, 1982 that Universal first placed on file applications under the Trademark Laws for the products it has previously licensed in September 1981 to Tiger. In this regard, we direct your attention to the fact that numerous companies unrelated to MCA have obtained Federal registrations for King Kong. We are uncertain as to the basis, in fact, for MCA's assertion of its right to that title for the products in the Merchandising License Agreement.

Universal was concerned that Tiger's challenges would create problems, but as of May 21, 1982, Universal still considered the Tiger license to be terminated.

A luncheon meeting was set up for May 21, 1982 between Arakawa and Lincoln on behalf of Nintendo and Sheinberg and Hadl from Universal. At that meeting, Sheinberg again brought up the possibility of future business relations between the two companies if only Nintendo would agree to pay a royalty on Donkey Kong. He further stated that Universal was very litigious and that its "litigation department even turned a profit." He cautioned Nintendo not to misinterpret Universal's intention to file suit if a settlement was not reached, and said that Sony's president had made this mistake and the result had been the Betamax lawsuit. Lincoln responded that after a full investigation, Nintendo did not believe that Universal's claims had any merit. As the May 21, 1982 meeting ended, Sheinberg stated that Nintendo had better start "saving money to pay its attorney's fees." Immediately after this meeting, Universal

decided to file this lawsuit and to renegotiate Tiger's license for King Kong video games. Until this decision, consultation with DiMuro on the subject of the Nintendo action was consciously avoided.

After the May 21 meeting with Nintendo, Universal met with Tiger and advised that it would reconsider terminating the license if Tiger made some modifications to its games. Tiger then made three modifications to its King Kong game. These changes were: (1) putting a fire hat on the hero character; (2) adding bombs to the game; and (3) making the floors horizontal. The bombs replaced barrels which were present in the initial Tiger materials viewed by Universal and were substantially similar to the fireballs in the Donkey Kong audio-visual work. The horizontal floors replaced zig-zag ramps present in the initial Tiger materials viewed by Universal and were similar to the ramps which appear on the rivets board game screen of the Donkey Kong audio-visual work.

Tiger submitted its modified King Kong game to Universal by early June 1982. Hadl and Rissmann played the modified Tiger game on a home video system at a Sears, Roebuck store. Hadl approved the modified Tiger King Kong game but did not compare the modified game to the Donkey Kong audio-visual work. Universal then modified its licensing agreement with Tiger. The modifications were drafted by DiMuro and Hadl and included granting Tiger a nonexclusive as opposed to an exclusive license, thereby strengthening Universal's King Kong claim for viable licensing rights and eliminating Tiger's ability to challenge Universal's license to Coleco.

On June 6, 1982, Universal announced the creation of MCA Video Games, recognizing that the video game business "looked like the biggest business around." On June 29, 1982, Universal filed suit against Nintendo, claiming that Universal was the owner of all trademark rights in King Kong and that Nintendo's Donkey Kong game infringed on its rights in King Kong. The complaint which Universal filed had been drafted by Kroft. On or about June 29, 1982, Universal also issued a press release announcing that it had filed the lawsuit against

Nintendo and that it had entered into a license agreement with Coleco for Donkey Kong and that it owned "the name, character, the visual image of 'King Kong.' "

Universal's complaint asserted broad rights in King Kong:

> 6. By virtue of certain agreements and written assignments entered into between Universal and RKO General Inc. and Universal and the heirs of Merian C. Cooper, Universal is the owner of all trade name, trademark, service mark and other rights in the name, character and story of KING KONG, created and developed by Merian C. Cooper prior to 1933 and produced and released as a motion picture under the name "KING KONG" . . . and subsequently as a remake motion picture . . . in 1975.
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> * * * * * * *
>
> 8. The name KING KONG denotes a gigantic gorilla and the story KING KONG, as made popular by [the] motion pictures of RKO and Dino De Laurentiis to whose rights in KING KONG Universal has succeeded, tells of the gorilla's discovery by an American movie crew on an island in the South Pacific, his subsequent capture and transport to New York and the gorilla's attachment for the female star of the film. Among the most popular and famous scenes of the "KING KONG" motion pictures produced by RKO and Dino De Laurentiis is KING KONG at the top of a large building holding the female lead of the film captive while attempting to repel the efforts of others to rescue her.
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> * * * * * * *
>
> 17. Defendants' use of Universal's KING KONG name, character and the elements of the KING KONG story made popular by the "KING KONG" motion pictures as aforesaid is without Universal's consent or permission and without the consent or permission of any of Universal's predecessors in interest.

(Complaint ¶¶ 6, 8, 17).

In the summer of 1982, while discussing a possible script for a remake of King Kong, Sheinberg told the scriptwriter to consult with Di Muro:

> to be sure that we [do] not inadvertently infringe on any rights owned by RKO or otherwise—or indeed Dino De Laurentiis . . . both of those parties indeed have protectible rights in the King Kong property . . . [and Universal should not be] in the position of being infringers of those rights . . . anything that was protectible in the particular screenplay or the photoplay of King Kong, in either one of those two films, . . . should not through inadvertence or worse be used.

In planning a King Kong attraction for Universal Studios Tours, Sheinberg advised the project manager to contact Di Muro and get "legal advice . . . so that we [don't] depict the ape or anything else that might be protectible."

In July 1982, the designer of the Tours attraction was advised that Di Muro instructed that:

> . . . the King Kong character is not to be modelled after the ones used in either of the two motion pictures, but rather is to be based upon generic apes or an ape from a zoo or from wild life.

Universal's contract with the designer specified that "the 'King Kong' figure shall be an original design of a living ape figure. In no event shall the figure be based on the King Kong figure used in any previously released motion picture." There was no reconciliation between these internal Universal positions which directly conflict with the blanket claim of ownership in the complaint.

Throughout discovery in this litigation, Universal pointed cryptically to unspecified documents as the source of its rights. Sheinberg asserted in his deposition that the source of Universal's rights derived from an agreement not identified in the interrogatory responses and that it had "consistently been our position" that Universal's rights derived from that agreement.

Ultimately, Universal relied only on the Cooper Judgment rendered in the RKO litigation and the Cooper Agreement assigning the Cooper Judgment to Universal as the alleged source of its rights. During depositions, Sheinberg either refused to testify about what he believed to be Universal's rights in King Kong or testified that he did not know what rights were owned, although he specifically authorized filing the complaint in this action.

Prior to this litigation, Universal failed to mount any efforts to deter unauthorized third-party uses of the King Kong name, character and story, despite its claim of exclusive trademark rights. To explain this lack of enforcement effort, Universal claimed that it had not been aware of any unauthorized uses of King Kong before Nintendo's alleged infringement. This claim of ignorance is unsupported by the evidence of Universal's various trademark searches and general knowledge of third-party use.

On or about November 1, 1982, Nintendo entered into a licensing agreement with Atari, a Warner Communications, Inc. ("Warner") subsidiary, providing for Atari's use of the Donkey Kong name and character in connection with home computers. Sheinberg told representatives from Atari and its parent, Warner Communications, Inc., that the Donkey Kong property violated Universal's rights, that Nintendo's major licensee, Coleco, had signed an agreement with Universal, and that Atari should sign an agreement if it did not want to be sued by Universal. Warner determined that a failure to come to an agreement with respect to Donkey Kong would threaten its joint ventures and other business relationships with Universal. On January 19, 1983, Universal and Atari entered into an agreement by which Universal received a royalty of three percent of the gross wholesale sales of Donkey Kong computer game products. The Atari agreement is virtually identical to the Coleco agreement. Universal did not seek or obtain any right to control or supervise Atari's exploitation of Donkey Kong, and the existence of the agreement was not disclosed to Nintendo.

In November 1982, Nintendo negotiated a license agreement with Ruby-Spears giving Ruby-Spears the option to use the Donkey Kong name and character in a cartoon television series. In connection with the negotiations, Nintendo informed Ruby-Spears about the Universal litigation with Nintendo. Ruby-Spears told Nintendo there was no way Ruby-Spears or CBS Television was going to allow a Donkey Kong cartoon series to be aired without an arrangement with Universal. According to Ruby-Spears, Universal had a reputation of being very litigious, and although Ruby-Spears did not believe Universal had any rights, it advised another Nintendo licensee that Ruby-Spears intended to enter into a license with Universal because of Universal's power in the industry. On or about March 31, 1983, Universal and Ruby-Spears agreed that Universal would receive monies from the exploitation of Donkey Kong television programs and the right to distribute the programs produced off-network throughout the world in all media and forms. Universal did not seek or obtain any right to control or supervise Ruby-Spears' exploitation of Donkey Kong. On May 6, 1983, Universal issued a press release announcing that it had secured international television distribution rights in Donkey Kong. Universal's press release further stated that: "Donkey Kong, which is scheduled to appear for the first time on the CBS Network for Fall 1983, is based on the year's most popular video arcade game, which is made by Nintendo."

After obtaining a list of Nintendo's licensees and copies of the license agreements in discovery, on or about January 3, 1983, Universal sent letters to Nintendo's licensees stating that Universal was "the owner of the trademark and trade name rights in the name 'King Kong' the gorilla character 'King Kong' and certain pictorial and graphic depictions of the character 'King Kong' made famous by several motion pictures." Universal demanded that the licensees either desist from marketing Donkey Kong products or obtain a license from Universal authorizing the use of the "name 'King Kong' and variations of the name, including 'Donkey Kong'." Uni-

versal further stated that the licensees should submit for Universal's inspection and evaluation the licensees' Donkey Kong products.

Universal had repeatedly assured Coleco, Atari and Ruby-Spears that it would aggressively pursue all other Nintendo licensees. In a memorandum to Hadl and Sheinberg, dated February 15, 1983, Mr. Newman, an MCA Officer, stated "I would note that in dealing with Coleco, Atari and Hanna Barbera [Ruby-Spears] we have made repeated assurances of our intent to aggressively pursue all licensees. Since Donkey Kong products seem to still be alive, such pursuit should be undertaken aggressively at this time and not left on the back burner." Consistent with its plan to undertake aggressive pursuit of Nintendo licensees, Universal demanded that Nintendo's remaining two major licensees, Ralston Purina and Milton Bradley, enter into agreements with Universal.

Although Hadl informed Milton Bradley in the Fall of 1982 of the Universal-Coleco agreement and stated that Universal might take action for use of the Donkey Kong trademark in connection with board games, jigsaw puzzles, and card games, no action was taken until March 30, 1983. Universal's counsel then wrote Milton Bradley stating that Universal would seek damages based on Milton Bradley's "sale of [the Donkey Kong card game] and other Milton Bradley products which infringe the King Kong trademark" and stating "[w]e would urge you to give serious thought to the course of action you have undertaken, keeping in mind that others who are using the 'Donkey Kong' name to sell their products have obtained from Universal an appropriate license authorizing them to use this variation of the 'King Kong' trademark." Milton Bradley successfully marketed the Donkey Kong products. Universal took no further action.

Universal also asserted its King Kong rights to another major Nintendo licensee, Ralston Purina Company, which had entered into a Nintendo license agreement on or about February 9, 1983, providing for the use of the Donkey Kong name and character in connection with breakfast cereal. Having been

advised of Universal's claim by Nintendo, Ralston Purina had examined the pleadings and other records from this litigation and from the California litigation and had reviewed public trademark and copyright records. Based on its investigation, Ralston Purina concluded that Nintendo was the exclusive owner of the Donkey Kong property and that Universal did not own exclusive rights in King Kong nor did it have any rights in the Donkey Kong property.

Notwithstanding its conclusions, Ralston Purina decided to meet with Universal on February 28, 1983. Ralston Purina told Universal that it had done an investigation which revealed that Universal had no rights and pressed Universal to set forth the basis for its alleged rights in King Kong and Donkey Kong. Nonetheless, Ralston Purina told Universal that it still preferred to avoid a nuisance suit and indicated further that it would be willing to consider a one-time lump-sum payment to avoid litigation. Universal rejected Ralston Purina's lump-sum proposal and proposed an agreement that provided percentage royalties.

Ralston Purina accepted the proposal, provided that Universal would agree to refund any payments if Universal lost its lawsuit against Nintendo. Universal rejected the suggestion, saying that after Universal won this action it would own Donkey Kong. Ralston Purina inquired whether Universal would be interested in issuing a King Kong license. Discussions were broken off with a threat by Universal that Ralston Purina would not be treated as leniently as Coleco. Ralston Purina successfully marketed its Donkey Kong cereal without further action by Universal.

Universal's January 3, 1983 "cease and desist" letter claiming all rights in King Kong was sent to, among others, the following Nintendo licensees: Atari, Bates Nitewear Corporation, Charleston Hosiery, Houze Glass Corp., Manton Cork, Milton Bradley, Super Shirts, Inc., and Trim Line Sales. Seven licensees, Bates Nitewear Corp., Charleston Hosiery, Houze Glass Corporation, Manton Cork, Super Shirts, Inc., Sylva Manufacturing, and Trim Line Sales stopped producing

Donkey Kong products in breach of their Nintendo license agreements, which called for guaranteed payments. With the exception of Bates Nitewear, these licensees also failed and refused to pay the guaranteed royalty specified in their licenses. As a result of Universal's interference with these licensees, Nintendo lost $94,219.56 in guaranteed royalties. Each of these licensees cited Universal's lawsuit and its demands as reasons for the breach of their Nintendo license agreements. Nintendo brought no action to enforce its guaranteed royalties.

Nintendo had a program to retain licensees who failed to pay their guaranteed royalties because of the litigation, offering to indemnify the licensees, extend their license agreements to work off their guarantees, and convince licensees that Donkey Kong was a popular character and that the licensing program was continuing. Despite Nintendo's efforts, Charleston Hosiery, Manton Cork and Super Shirts complained that the lawsuit interfered with their sales to the retail trade, with "potential customers being scared off," and major customers, such as J.C. Penney, refusing to do business with a licensee whose product was involved in litigation.

Universal's actions also interfered with Nintendo's ability to secure other licenses. Shortly after the lawsuit was filed, two potential licensees, Union Underwear and Gabriel Industries, decided not to execute their Nintendo license agreements, citing Universal's claims. Nintendo has not, however, established Universal's acts as the sole basis for its lost licenses and the consequent guaranteed royalties of $40,000 from Union Underwear and $20,000 from Gabriel Industries.

Despite Universal's repeated allegations of "irreparable injury" resulting from the alleged trademark violations by Nintendo's licensees, Universal elected not to seek preliminary relief. Instead, it embarked on the course of securing agreements from Nintendo's licensees whereby it became a partner in the distribution of millions of Donkey Kong products identified as originating with Nintendo and under Nintendo's exclusive control. Where the Nintendo licensee refused to comply, no litigation was undertaken.

The Calculation of Damages Asserted

Universal received royalties of $4,765,371.48 from its agreements with Coleco, Atari, and Ruby-Spears. Nintendo failed to receive guaranteed royalties under existing license agreements in the amount of $94,219.41. Nintendo incurred legal fees of $1,142,545.70 in its defense of Universal's infringement action and has incurred substantial attorney's fees in pursuit of its counterclaims.

Pac Man, the most successful arcade game, is alleged by Nintendo to have generated merchandise licensing revenues of $19 million, while Donkey Kong received $2.3 million, although Donkey Kong sales of 60,000 units compared to sales of 100,000 Pac Man units. To apply the Pac Man merchandising revenues/total sales ratio to Donkey Kong would be far too speculative. Obviously there are significant differences between the licensing programs and the games beyond those caused by Universal's actions.

The Games

The Donkey Kong video arcade game consists of four game boards—the girders board, the rivets board, the elevator board and the conveyor board. The object of the game is to maneuver Mario, the character controlled by the player, to the top of the screen to rescue the girl from the gorilla character Donkey Kong who holds her at the top of the structure. As the player maneuvers Mario to the top of the screen, he must avoid objects such as barrels and fireballs and avoid falling through gaps in the girders. He can pick up prizes which appear on the screen, such as purses and umbrellas.

When the Donkey Kong game begins, the gorilla appears at the bottom of the display screen and climbs to the top of the girder pattern. The board initially consists of seven horizontal girders attached by vertical ladders at various points. When the gorilla reaches the top, he deposits the girl atop the gridwork and then hops to the left, by his sheer weight causing the various horizontal girders to shift in such a way that each is

slightly inclined. Mario then appears at the bottom of the grid work, and the machine begins to play a catchy, rhythmic musical jingle which continues throughout the game. The player controls Mario's movement by means of control stick and a "jump" button and attempts to maneuver Mario along the girders and up the ladder while jumping over barrels that the gorilla releases from above and fireballs emanating from below. Mario's walk has a rhythmic, determined quality that meshes neatly with the syncopation of the music. Mario occasionally has use of a hammer with which he protects himself from barrels or fireballs. Mario spins and falls, if hit by either a barrel or fireball, and the player has lost. The visual and aural effect of the "game play" are defined by the interaction of all of these elements, although the "tone and feel" of the game are dominated by Mario's rhythmic march, interspersed by jumps, in time with the music, in a hopefully continuous upward movement towards the girl.

A coin-operated video arcade game, such as the Donkey Kong video arcade game, consists of a video monitor, printed circuit boards (which include the memory chips), power supply, internal wiring and a control panel to play the game. The audio-visual work displayed on a coin-op video arcade game is embodied in and controlled by the printed circuit board, the memory chips and the electronic circuitry.

The Tiger King Kong video game cartridge and tabletop games have only one gameboard, which is a combination of the Donkey Kong girders board and rivets board. It was created by watching the Donkey Kong game and creating a computer program that would replicate the Donkey Kong gameplay. The concept, feel, and play of the Tiger King Kong game are substantially similar to the coin-operated Donkey Kong game. Visual and tonal differences are more attributable to the more limited memory capacity and display medium of the home video than to any intentional effort to design distinct games. Indeed, Tiger, other than for certain limited differences, is nearly as similar to Donkey Kong as permitted by the home video cartridge technology.

Tiger revolves around the same three characters as Donkey Kong: a large gorilla, a female captive, and a male rescuer. The game begins as the gorilla climbs the horizontal girders that are joined by ladders. The male character, visually similar to Mario, though called a fireman not a carpenter, then proceeds along the girders, walking in a rhythmic fashion, climbing the ladders, while avoiding bombs dropped by the gorilla above. The musical jingle that accompanies the male figure's determined stride is nearly identical to the jingle in Donkey Kong. If hit by a bomb the male figure spins and tumbles.

Nintendo claims that it "carefully polices the marketplace to combat infringements of its valuable copyrights and trademarks." It has instituted 22 lawsuits in the United States against alleged infringers, although Nintendo has not brought any action directly against Tiger for infringement.

Discussion

Nintendo has set forth three counterclaims: 1) misappropriation of property and unjust enrichment; 2) contributory copyright infringement; and 3) tortious interference with contract. Nintendo also seeks recovery of its attorney's fees, relying on 17 U.S.C. § 505, 15 U.S.C. § 1117, and Rule 11, Fed. R. Civ. P. These claims will be addressed sequentially.

Misappropriation

Nintendo asserts that the Donkey Kong trademark is the exclusive property of Nintendo and that Universal's agreements with Coleco, Atari and Ruby-Spears, which resulted in revenues of $4.76 million for Universal, constitute the misappropriation of Nintendo's trademark and the unjust enrichment of Universal. The theory of unjust enrichment is premised upon "the equitable principle that a person shall not be allowed to enrich himself unjustly at the expense of another . . . [w]hen and because of the acts of the parties or others have placed in the possession of one person money, or its equivalent, under such circumstances that in equity and good

conscience he ought not to retain . . ." *Miller* v. *Schloss*, 218 N.Y. 400, 407, 113 N.E. 337, *quoted in Friar* v. *Vanguard Holding Corp.*, 78 A.D.2d 83, 434 N.Y.S.2d 698, 701 (2d Dept. 1980). *See Werlin* v. *Readers Digest Ass'n Inc.*, 528 F. Supp. 451 (S.D.N.Y. 1981). In *Reprosystem, B.V.* v. *S.C.M. Corp.*, 727 F.2d 257 (2d Cir.), *cert. denied*, ____ U.S. ____, 105 S.Ct. 110, 83 L. Ed. 2d 54 (1984) the Court stated that the prerequisite to recovery under a theory of unjust enrichment is that the plaintiff "must first show that a benefit was conferred upon the defendant, and then show that as between the two parties enrichment of the defendant was unjust." *Id.* at 263. Nintendo concedes that the $4.76 million that Universal acquired from its agreements with Coleco, Atari, and Ruby-Spears would not have inured to Nintendo in the absence of Universal's agreements with the three licensees. There was no showing that the payment of the money resulted in any consequential reduction in the payment of licensing fees from these three licensees to Nintendo. Each of the three licensees satisfied its contractual obligation to pay the specified percentage of revenue to Nintendo.

Nintendo urges that a plaintiff may recover funds paid by a third party to the defendant where, as between the plaintiff and defendant, it is inequitable to permit the defendant to retain the funds. Tracing the expansion of unjust enrichment to encompass such third party recoveries to *Arris* v. *Stukey*, 2 Mod. 260, 86 Cong. Rep. 1060 (Ex. 1677), Nintendo argues that:

> The point is not whether a definite something was taken away from plaintiff and added to the treasury of the defendant. The point is whether defendant unjustly enriched itself by doing a wrong to plaintiff in such manner and in such circumstances that in equity and good conscience defendant should not be permitted to retain that by which it has been enriched.

Federal Sugar Refining Co. v. *United States Sugar Equalization Board, Inc.*, 268 F. 575, 582 (2d Cir. 1920). Nintendo relies

on Professor Palmer's statement of the basis for this type of third party recovery:

> Most of the cases . . . involved payment of money by a third person to the defendant, with restitution taking the form of recovery of the same amount by the plaintiff. The case for such relief is clearest when the plaintiff had a [preexisting] right to such payment, so that the very payment in question should have been made to him . . . Recovery in quasi contract is not limited, however, to situations in which the plaintiff had a right to the very payment made. It is enough if the defendant is unjustly enriched and the amount he received was pursuant to a *right held by the plaintiff.*

G. Palmer, *IV Law of Restitution* § *21.5* (1978) (emphasis added).

The failure of this theory is two-fold and is accentuated by Nintendo's inability to cite cases with facts similar to those present here. If the Universal agreements with Coleco, Atari, and Ruby-Spears represent a Universal license of King Kong, or a covenant not to sue for an infringement of Universal's rights in King Kong, then the funds derived from these agreements are not based on the sale of a right held by Nintento, whose rights are limited to Donkey Kong. Although a plaintiff's recovery based on unjust enrichment may be proper where the defendant has acquired funds from a third party by the sale of rights possessed by the plaintiff, *see* Friedman, *Restitution of Benefits Obtained Through the Appropriation of Property or the Commission of a Wrong*, 80 Colum. L. Rev. 504, 505 (1980), such a recovery is not proper where the sale was of a right controlled by the defendant. Universal's agreements with Coleco, Atari, and Ruby-Spears were based on the sale of King Kong, not Donkey Kong, and hence do not support recovery based on unjust enrichment. Although the rights in King Kong may have been falsely asserted, *see* discussion *infra*, that the agreement was based on a professed and perhaps even pretextual right claimed by Universal prevents recovery on this theory.

Nintendo argues, however, that the Universal agreements in substance were licenses of Donkey Kong, not King Kong, and that Universal was consequently licensing Nintendo's copyrighted property. This claim, however, is "a claim based on a right equivalent to 'exclusive rights within the . . . scope of copyright.' As such, it is defeated by [17 U.S.C.] section 301(a)." *Durham Industries, Inc.* v. *Tomy Corp.*, 630 F.2d 905, 919 (2d Cir. 1980). Section 301(a) of the Copyright Act of 1976 provides:

> (a) On and after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by section 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

The test for preemption involves two inquiries: 1) is the work in question within the subject matter of copyright as defined in 17 U.S.C. §§ 102, 103, and 2) is the state law created right equivalent to any of the exclusive rights within the general scope of copyright as specified by 17 U.S.C. § 106. *Harper & Row Publishers, Inc.* v. *Nation Enterprises*, 723 F.2d 195 (2d Cir. 1983), *rev'd on other grounds*, ____ U.S. ____, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985).

The first test is not disputed: Nintendo's ownership of copyright registrations for Donkey Kong satisfies this test.

The second element is also satisfied. 17 U.S.C. § 106 states:

> subject to sections 107 through 118, the owner of copyright under this title has the exclusive right to do and to authorize any of the following:
>
> (1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies of phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending.

* * * * *

Nintendo essentially alleges that Universal was claiming the right to license the reproduction and sale of Donkey Kong. The state law claim of unjust enrichment through licensing of Donkey Kong is encompassed by the rights included in § 106. It is control over the right to reproduce Donkey Kong that Universal is alleged to have misappropriated and profited from, and this right is the very essence of the copyright protection embodied in § 106. *See Mayer* v. *Josiah Wedgwood & Sons, Ltd.*, 601 F. Supp. 1523 (S.D.N.Y. 1985). If the right Nintendo seeks to vindicate is predicated on Universal's improper licensing of reproduction of Donkey Kong, the state cause of action is preempted. Recovery under an unjust enrichment theory is precluded either because Universal licensed King Kong, a property not controlled by Nintendo, or because Universal's improper licensing of Donkey Kong states a claim under only the copyright laws.

II. *Vicarious Copyright Infringement*

Nintendo alleges that Tiger's home video game, its mini-arcade tabletop game, and its hand-held game infringe Nintendo's video arcade Donkey Kong and Coleco's Donkey Kong games.[1] By licensing Tiger's use of King Kong in these games, Universal is alleged to be guilty of vicarious infringement, which is established if it is shown that a party, with knowledge of infringing activity, induces, causes, or materially contributes to the infringing conduct of another. *Gershwin Publishing Corp.* v. *Columbia Artists Management, Inc.*, 443 F.2d 1159,

1. Because a copyright for only Nintendo's arcade game was submitted, only infringement of the arcade game is at issue. 17 U.S.C. § 411.

1162 (2d Cir. 1971); *Encyclopedia Britannica Educational Corp.* v. *Crooks*, 558 F. Supp. 1247 (W.D.N.Y. 1983). The liability of one found guilty of vicarious infringement is joint and several with all infringers. "[A]s all united in infringing, all are responsible for the damages resulting from the infringement." *Gross* v. *Van Dyk Gravure Co.*, 230 F. 412 (2d Cir. 1916), *quoted in Gershwin*, *supra*, at 1162 n.7. The record establishes the elements necessary to find vicarious liability: an infringement of the Donkey Kong copyright by Tiger, and the knowing inducement of the infringing activity by Universal. *See generally Sony Corp.* v. *Universal City Studios*, 464 U.S. 417, 164 S. Ct. 774, 78 L.Ed.2d 574 (1984).

A plaintiff's ownership of a valid copyright and copying by the defendant must be demonstrated to establish a copyright infringement. *Eden Toys, Inc.* v. *Marshall Field & Co.*, 675 F.2d 498, 499 (2d Cir. 1982). The validity of Nintendo's copyright registration for the arcade game is undisputed, and copying by the defendant may be inferred where a party establishes that the defendant had access to the copyrighted work and that the two works are substantially similar. *Warner Bros. Inc.* v. *American Broadcasting Companies, Inc.*, 654 F.2d 204, 207 (2d Cir. 1981). Access of Tiger President Rissmann to Donkey Kong is undisputed. The only legal issue to determine is whether the games are substantially similar in protected expression, for the court must "distill the protected parts of a work from the unprotected," *Warner Bros. Inc.* v. *American Broadcasting, Etc.*, 530 F. Supp. 1187, 1190 (S.D.N.Y. 1982), *aff'd*, 720 F.2d 231, 222 USPQ 101 (2d Cir. 1983) in order to determine the impropriety of similarities among products. *See Durham Industries*, *supra*, at 915.

Because copyright protection extends only to the expression of an idea, not to the idea itself, 17 U.S.C. § 102(b), *Mazer* v. *Stein*, 347 U.S. 201, 217, 74 S. Ct. 460, 470, 98 L.Ed. 630 (1954), the general "game concepts" underlying Donkey Kong are not protectible. Neither the ramps and ladders motif nor the gorilla/female captive scenario is independently protectible. *See Atari, Inc.* v. *North American*, 672 F.2d 607 (7th Cir.),

cert. denied, 459 U.S. 880, 103 S. Ct. 176, 74 L.Ed.2d 145 (1982). Yet this does not render the entire game unprotectible, for as Professor Nimmer stated, "some limited copyright protection is nevertheless available in connection with games . . . [A] relatively minimal artistic expression, if original, would render copyrightable . . . the pattern or design of game boards and playing cards as pictoral or graphic works." 1 Nimmer § 2.18[H][3], quoted in *Atari*, *supra*, at 615.

A line must be drawn betwen unprotectible video game ideas and protectible expressions of those ideas. Examining this issue in the context of an admitted "knockoff," this Circuit held that a video game copyright extended beyond the computer program that generates the audio and visual elements of the game. Because different computer programs can generate the same images and game play, the Court held that "[t]he repetitive sequence of a substantial portion of the sights and sounds of the game qualifies for copyright protection as an audiovisual work." *Stern Electronics, Inc.* v. *Kaufman*, 669 F.2d 852, 856 (2d Cir. 1982). Although the Court did not define the precise point at which the sequence of images became too insubstantial a portion of the game to warrant protection, the court "assess[ed] the entire effect of the game as it appears and sounds" and found it copyrightable. *Id.* at 857. Judge Learned Hand, before the time of video arcade games, recognized the difficulty involved in this determination when he said: "Obviously, no principle can be stated as to when an imitator has gone beyond copying the 'idea' and has borrowed its 'expression.' Decisions must therefore inevitably be *ad hoc*." *Peter Pan Fabrics, Inc.* v. *Martin Weiner Corp.*, 274 F.2d 487 (2d Cir. 1960). Judge Hand defined what is known as an "abstractions test":

> Upon any work . . . a great number of patterns of increasing generality will fit equally well, as more and more of the incident is left out . . . [T]here is a point in this series of abstractions where they are no longer protected, since otherwise the playwrite could prevent the use of his "ideas," to which, apart from their expression, his

> property is never extended. . . . As respects plays, the controversy chiefly centers upon the characters and sequence of incident, these being the substance.

Nichols v. *Universal Pictures Corp.*, 45 F.2d 119, 121 (2d Cir. 1930), *cert. denied*, 282 U.S. 902, 51 S. Ct. 216, 75 L.Ed. 795 (1931). In *Sid & Marty Krofft Television Productions, Inc.* v. *McDonald's Corp.*, 562 F.2d 1157 (9th Cir. 1977) the Court used the concept of idea-expression unity: where the idea and expression are indistinguishable, where the idea and expression coincide because the expression provides nothing new or additional beyond the idea, the copyright will protect against only identical copying. *Krofft*, at 1167-68; *Atari*, at 616. Some courts have used an approach of denying protection to *scenes a faire*, which are those "incidents, characters, or settings which are as a practical matter indispensible, or at least standard, in the treatment of a topic." *Alexander* v. *Haley*, 460 F. Supp. 40, 45 (S.D.N.Y. 1978), *see Hoehling* v. *Universal City Studios, Inc.*, 618 F.2d 972, 979 (2d Cir.), *cert. denied*, 449 U.S. 841, 101 S. Ct. 121, 66 L.Ed.2d 49 (1980).

Using this framework, the Court in *Atari*, *supra*, found that although *Pac-Man* was primarily an unprotectible game, to a limited extent its expression in terms of the shapes, sizes, sequences, arrangements, and sounds was protectible. And although the Pac-Man game could be defined by means of an abstraction of unprotectible dimension, the "audio component and the concrete details of the visual presentation constitute the copyrightable expression of that game 'idea'." *Atari*, *supra*, at 617. Neither the maze-chase format nor the use of "dots" to determine the success of the player was protectible. It was the substantial appropriation of the Pac-Man characters that was determinative. The Court stated:

> The expression of the central figure as a "gobbler" and the pursuit figures as "ghost monsters" distinguishes PAC-MAN from conceptually similar video games. PAC-MAN's particular artistic interpretation of the game was designed to create a certain impression which would

> appeal to a nonviolent player personality. The game as such, however, does not dictate the use of a "gobbler" and "ghost monsters." Those characters are wholly fanciful creations, without reference to the real world.
>
> . . .
>
> North American not only adopted the same basic characters but also portrayed them in a manner which made K.C. Munchkin appear substantially similar to PAC-MAN. The K.C. Munchkin gobbler has several blatantly similar features, including the relative size and shape of the "body," the V-shaped "mouth," its distinctive gobbling action (with appropriate sounds), and especially the way in which it disappears upon being captured. An examination of the K.C. Munchkin ghost monsters reveals even more significant visual similarities. In size, shape, and manner of movement, they are virtually identical to their PAC-MAN counterparts. K.C. Munchkin's monsters, for example, exhibit the same peculiar "eye" and "leg" movements. Both games, moreover, express the role reversal and "regeneration" process with such great similarity that an ordinary observer could conclude only that North American copied plaintiffs' PAC-MAN.
>
> Defendants point to a laundry list of specific differences—particularly the concept of moving dots, the variations in mazes, and certain changes in facial features and colors of the characters—which they contend, and the district court apparently agreed, shows lack of substantial similarity. Although numerous differences may influence the impressions of the ordinary observer, "slight differences between a protected work and an accused work will not preclude a finding of infringement" where the works are substantially similar in other respects.

Id. at 617-18.

On the record in this case the Tiger game infringes on the Donkey Kong arcade game. Although neither ramp and ladder motifs nor carpenters, gorilla and heroines characters are

protectible in the abstract, Donkey Kong's particular expression of a gorilla villain and a carpenter hero (with or without a fire hat) who must dodge various obstacles (whether bombs or fireballs) while climbing up ladders (whether complete or broken) and picking up prizes (umbrellas and purses) to rescue a fair-haired (whether knotted or pigtailed) hostage from the gorilla is protectible against appropriation by Universal and its licensees. The nearly identical musical background, the nearly identical march of the hero along the girders, the similar ascent of the gorilla at the outset of the game, the nearly identical progression along girders, up ladders, across ravines, all further the similarity in playing environment encountered by a customer. The tone and feel of Donkey Kong are replicated as nearly as possible in Tiger, given the diminished clarity and sophistication of the Tiger game. *See also Nintendo of America, Inc.* v. *Elcon Industries, Inc.*, 564 F. Supp. 937 (E.D. Mich. 1982). The interaction of the characters, obstacles, background, and music in Donkey Kong are arbitrary, fanciful, and sufficiently distinctive such that they deserve protection from a near knock-off such as Tiger. The license termination sent by Universal to Tiger is especially relevant, because it demonstrates Universal's own position that Tiger was substantially similar to Donkey Kong:

> [T]he advertising, packaging and catalog material which you have prepared and distributed makes clear that the display board and concept of your "King Kong" mini-arcade tabletop electronic game is substantially similar to the display board and concept of a popular arcade game called "Donkey Kong" currently owned and marketed by another company. . . .

The three alterations made thereafter by Tiger are examples of differences in detail which do not materially alter the similarity in character and play that produces the infringement. *Peter Pan Fabrics*, *supra*, at 489; *Atari*, *supra*, at 618; *Sheldon* v. *Metro-Goldwyn Pictures*, 81 F.2d 49, 56 (2d Cir.), *cert. denied*, 298 U.S. 669, 56 S. Ct. 835, 80 L. Ed. 1392 (1936). Indeed, the

nature of the alterations only emphasizes the overall similarities between the works. *Atari, supra*. Universal's knowledge of the similarities and its inducement of the infringement through its license agreement support a finding of vicarious infringement.

Pursuant to 17 U.S.C. § 504, Nintendo may elect at any time before judgment to choose either statutory damages or its actual damages plus Universal's profits from the infringement. Nintendo has chosen to recover Universal's profits, which the record establishes to total $56,689.41. Universal bears the burden of establishing that these funds were not attributable to the infringement, 17 U.S.C. § 504(b), and this burden has not been met.

III. *Tortious Interference*

Nintendo's claim of tortious interference by Universal falls into three categories, relating to (1) Coleco, Atari and Ruby-Spears who breached material terms of their licensing agreements but continued to perform their other obligations; (2) Nintendo's existing licensees who breached their licenses and refused to perform as a result of Universal's actions; and (3) potential licensees who were dissuaded from doing business with Nintendo by Universal's actions.

The elements that must be proven to establish tortious interference with contractual relations are 1) a valid contract between Nintendo and a licensee; 2) Universal's knowledge of the contract and inducement of a breach; and 3) resulting damage to Nintendo. *Strobl* v. *New York Mercantile Exchange*, 561 F. Supp. 379, 386 (S.D.N.Y. 1983); *Israel* v. *Wood Dolson Co.*, 1 N.Y.2d 116, 151 N.Y.S.2d 1, 5, 134 N.E.2d 97, 99 (1956).

Nintendo's cause of action for tortious interference fails with respect to its contracts with Coleco, Atari, and Ruby-Spears, because Nintendo has not proven a material breach of those contracts. Each of these agreements had a clause stating that the licensee would not "do or cause to be done any act or thing contesting or in any way impairing or tending to impair

Nintendo's right in its trademark 'Donkey Kong.' " Nintendo argues that by signing license agreements with Universal, Coleco, Atari, and Ruby-Spears implicitly recognized multiple ownership rights in Donkey Kong, thereby impairing Nintendo's ownership. However, the agreement between Nintendo and these licensees also extended other rights to the licensees which establish that the agreements with Universal did not constitute a breach.

Each of these three license agreements disavowed any representations as to the scope or validity of the Donkey Kong trademark and did not indemnify the licensee for any subsequent claims of infringement brought by third parties. The agreements consequently left the licensees at risk to the extent that they exercised their rights under the license agreement. Because, under the agreement, each licensee was also responsible for defending infringement actions at its own expense, it had a corollary right to settle such actions. The clause prohibiting the licensee from impairing Nintendo's ownership rights, read in conjunction with the licensee's assumption of risk with respect to infringement violations and Nintendo's unwillingness to indemnify the licensee, cannot be interpreted to preclude the licensee from settling cases alleging infringement.

Further, the licensees' agreements with Universal state that the agreements were made in consideration of Universal's assertion that Universal's rights in King Kong were infringed by distribution of Donkey Kong. In view of Nintendo's unwillingness to guarantee the scope of the Donkey Kong copyright, the settlement of allegations of infringement on Universal's King Kong rights did not violate the licensees' obligations not to impair Nintendo's Donkey Kong ownership.

These agreements with Universal also did not impair payment of royalties to Nintendo, nor did they alter any other licensee obligations to Nintendo. Finally, Nintendo did not sue Coleco, Atari, or Ruby-Spears for a breach of the license agreements, nor did it ever put these companies on notice of an alleged breach of the contract. Nintendo's continued acceptance of performance following what is now alleged to consti-

tute a breach is tantamount to a waiver of its right to recover damages for the alleged breach. *Saverslak* v. *Davis-Cleaver Produce Co.*, 606 F.2d 208 (7th Cir. 1979), *cert. denied*, 444 U.S. 1078, 100 S. Ct. 1029, 62 L. Ed. 2d 762 (1980); *Specialties Development Corp.* v. *C.O.-Two Fire Equip. Co.*, 207 F.2d 753 (3d Cir. 1953), *cert. denied*, 347 U.S. 919, 74 S. Ct. 519, 98 L. Ed. 1074 (1954) (applying New York law). Nintendo, having derived the benefits of the license agreement, cannot now be heard to allege a breach in order to establish a claim for tortious interference with contract.

The facts as found establish that as a result of Universal's threatened litigation, Trim Line, Charlestan Hosiery, Super Shirts, House Glass, Mantan Cork, and Sylva Manufacturing failed to pay $94,219.41 in guaranteed royalties due under their license agreements. The facts as found also establish that Universal had knowledge of the existence of these contracts when it took the actions that induced the breach. Universal argues, however, that liability can attach for tortious interference with contractual relations only where the interference is knowing and improper, *Zilg* v. *Prentice-Hall, Inc.*, 717 F.2d 671, 676 (2d Cir. 1983); *Guard-Life Corp.* v. *S. Parker Hardware Manufacturing Corp.*, 50 N.Y.2d 183, 428 N.Y.S.2d 628, 406 N.E.2d 445 (1980); *Restatement (Second) of Torts* § 767 (1979), and that interference in the form of a threat of litigation, as alleged by Nintendo, is improper and therefore actionable only if the litigation is instituted without probable cause and for a purpose other than securing proper adjudication of the claim. Universal also argues that the Second Circuit would extend Noer-Pennington immunity from state tort liability to a non-sham lawsuit instituted upon probable cause. *Suburban Restoration Co. Inc.* v. *ACMAT Corp.*, 700 F.2d 98, 100-02 (2d Cir. 1983). Liability for tortious interference with respect to these licensees therefore hinges on whether or not Universal's threats of litigation were based on good faith and probable cause. *See, e.g.*, *Emery* v. *Merrimack Valley Wood Products, Inc.*, 701 F.2d 985, 989, 992 (1st Cir. 1983).

Probable cause exists when a party acts in reliance upon the advice of counsel, sought in good faith after full disclosure of

all relevant facts within his knowledge and information. *Restatement*, § 675. The testimony, the credibility of the witnesses, the interests—ulterior and apparent—of the various parties throughout the course of these events establish that Universal instigated this lawsuit and threatened others with litigation without meeting the good faith standard and without probable cause. To establish the defense, Universal must point to the facts and circumstances justifying its good faith belief in its claim at the time it was asserted. *See generally Tedeschi* v. *Smith Barney, Harris Upham & Co., Inc.*, 579 F. Supp. 657 (S.D.N.Y. 1984).

Universal's limited investigation of the merits of the underlying claim was intentionally structured so that the inadequacy of the claim would remain obscured while the collateral benefits of the litigation were enjoyed. Only by consciously avoiding discovery of the lack of merit of the underlying claim could Universal hope to accomplish its goal. The evidence shows, moreover, that Universal's claim of broad rights in King Kong was asserted in order to join in the profits from Donkey Kong rather than to vindicate a legitimate claim to a trademark. While Universal claimed to be the "owner of all trade name, trademark, service mark and other rights in the name, character and story of KING KONG", it was unable to identify "exactly what shred of the King Kong character and name Universal owns" 578 F. Supp. at 924, it had taken no prior steps to enforce its rights, and its licensing department acknowledged the absence of broad rights to the trademark and subsequent to the filing of the lawsuit it acknowledged that it did not possess certain of the rights claimed in its complaint.

A party's bad faith "can rarely be established by direct evidence, and must often be proved circumstantially and by inference." *Zilg* v. *Prentice-Hall, Inc.*, 515 F. Supp. 716, 719 (S.D.N.Y. 1981). Yet in this case, there is direct evidence that Universal knew it did not have the rights it asserted in its complaint. As recounted at greater length above, from June 1980 Sheinberg and others at Universal knew of the limited "merchandising" rights Universal retained in King Kong after

the California litigation. This understanding was reflected throughout 1982 in the agreement with Florida Tours which required that the tour ape figure be distinct from those in the movies, by Sifuentes' and DiMuro's conclusion that Universal had no rights in King Kong and should cease licensing, by the intention to terminate the Tiger license, and by DiMuro's memo to Sheinberg making clear the limited rights Universal had. Nonetheless, Universal, when it seemed beneficial, made sweeping assertions of rights, attempting thereby to extract license agreements from companies incapable of or unwilling to confront Universal's litigation "profit center."

Universal also asserts that it was privileged to act as it did because it did so on advice of counsel. Simple recitation of the claim of "advice of counsel" cannot save Universal from the showing of a lack of good faith. In the face of a showing of bad faith, the fact that a party received advice of counsel is only one factor to be considered "in the context of the totality of the circumstances." *Central Soya Company, Inc.* v. *George A. Hormel & Co.*, 723 F.2d 1573, 1577 (Fed. Cir. 1983). *See also Rea* v. *Wichita Mortgage Corp.*, 747 F.2d 567, 576 (10th Cir. 1984); *Securities and Exchange Commission* v. *Savoy Industries, Inc.*, 665 F.2d 1310, 1314 n.28 (D.C. Cir. 1981). The totality of the circumstances here show that whatever advice of counsel Universal received, it was insufficient to identify a cognizable right approaching that asserted in the complaint and was proffered without research or memoranda analyzing the claim. It was, moreover, advice requested by Sheinberg in the context of a business negotiation where bargaining chips would be of great value.

Throughout this litigation, Universal knew, as a result of the RKO litigation, that it had no rights to any visual image of King Kong from the classic movie or its remake. Universal understood that without this visual image it had no identifiable trademark, and when it learned of Donkey Kong and its success, it initially made the decision to cease licensing King Kong. In an about face, Universal, fully knowledgable that a major Nintendo licensee, Coleco, was commercially vulnerable

to its advances, determined to take advantage of Donkey Kong's success. In order to make its position credible, Universal asserted broad rights in King Kong, including the visual images to which it knew it had no right. Universal refused, however, to reveal to Nintendo or Coleco the source of its claimed broad rights. Universal succeeded in inducing Coleco to enter a license agreement, but failed to secure Nintendo's acquiescence. It then filed this complaint.

Because the defense of advice of counsel does not succeed, and because this lawsuit was instituted without good faith and the requisite probable cause, the elements of tortious interference with contractual relations have been proven. Damages of $94,219.41 result.

In New York:

> exemplary damages are recoverable in all actions *ex delicto* based upon tortious acts which involve ingredients of malice, fraud, oppression, insult, wanton or reckless disregard of the plaintiff's rights, or other circumstances of aggravation, as a punishment of the defendant and admonition to others.

36 N.Y. Jur. 2d § 176 (1984); *Giblin* v. *Murphy*, 97 A.D.2d 668, 469 N.Y.S.2d 211 (3d Dept. 1983). *See also LeMistral, Inc.* v. *Columbia Broadcasting System*, 61 A.D.2d 491, 402 N.Y.S.2d 815 (1st Dept. 1978). Punitive damages are awarded "not for the unintended result of an intentional act, but for the conscious disregard of the rights of others . . ." *Hartford Acc.* v. *Village of Hempstead*, 48 N.Y.2d 218, 422 N.Y.S.2d 47, 53, 397 N.E.2d 737, 743 (Ct. App. 1979).

I conclude that the conduct of Universal, as recounted above, amounts to the reckless disregard of the rights of Nintendo as well as Nintendo's licensees. Universal's conduct was highly unreasonable, and represented not mere negligence but an extreme departure from the standards of ordinary care. Exemplary damages are therefore justified.

There is no rigid formula by which to determine the proper amount of punitive damages, although they should bear some

reasonable relation to the harm done, *I.H.P.* v. *210 Central Park South Corp.*, 16 A.D.2d 461, 228 N.Y.S.2d 883 (First Dept. 1962), *aff'd*, 12 N.Y.2d 329, 239 N.Y.S.2d 547, 189 N.E.2d 812 (1963); *Ashare* v. *Mirkin, Barre, Saltzstein & Gordon*, 106 Misc. 2d 438, 435 N.Y.S.2d 438 (1980), and a punitive damage award will serve its deterrent function only if the award is sufficient to "smart" the offender. *Brink's Inc.* v. *City of New York*, 546 F. Supp. 403, 413 (S.D.N.Y. 1982). The financial capacity of the violator as well as the nature of the offense are relevant factors. *Id.*

Weighing these considerations, an appropriate punitive damages award is equal to the amount of Nintendo's legal fees incurred in defending against Universal's infringement action. While recognizing the unusual nature of this means of determining the size of the award of exemplary damages, only such an award bears a reasonable relationship both to the harm inflicted and the flagrancy of the conduct causing the harm. *See I.H.P.*, *supra*, at 889. Because the primary purpose of punitive damages is to deter similar conduct in the future, *Zarcone* v. *Perry*, 572 F.2d 52, 55 (2d Cir. 1978), and the deterrent effect of a punitive damages award will depend upon the wealth of the defendant, *O'Donnell* v. *K-Mart Corp.*, 100 A.D.2d 488, 474 N.Y.S.2d 344 (4th Dept. 1984), I do not find this award excessive. In view of the wantoness of the conduct involved, the wealth of Universal, the profits derived from the misuse of threatened litigation, and the necessity for inhibiting this improper use of judicial process, I conclude that an award equal to Nintendo's attorney's fees in defending against Universal's Lanham Act claim is appropriate.

IV. *Attorney's Fees*

Nintendo has moved for attorney's fees pursuant to 17 U.S.C. § 505, 15 U.S.C. § 1117, and Fed. R. Civ. P. 11.

1. *17 U.S.C. § 505*

Nintendo moves for attorney's fees incurred in establishing Universal's vicarious copyright infringement on Donkey Kong.

Section 505 provides that in a copyright action "the court may also award a reasonable attorney's fee to the prevailing party as part of the costs." This award is within the discretion of the court, and "[b]ecause Section 505 is intended in part to encourage the assertion of colorable copyright claims and to deter infringement, fees are generally awarded to prevailing plaintiffs." *Diamond* v. *Am-Law Pub. Corp.*, 745 F.2d 142, 148 (2d Cir. 1984). No basis for denying the fees, in view of the presumption in favor of granting them, has been presented. Given the history behind this lawsuit, as recounted above, Universal's recognition that the games were substantially similar, and Universal's use of Tiger as a means of strengthening its position in negotiations with Coleco, the assessment of attorney's fees incurred in establishing the violation to be appropriate.

2. *15 U.S.C.§ 1117*

Nintendo also has moved for its attorney's fees incurred in defense of Universal's trademark and unfair competition claims. Section 1117 of the Lanham Act provides that "[t]he court in exceptional cases may award reasonable attorney's fees to the prevailing party." 15 U.S.C. § 1117. This motion is timely. *White* v. *New Hampshire Dept. of Employment Security*, 455 U.S. 445, 102 S. Ct. 1162, 71 L. Ed. 2d 325 (1982); *Bittner* v. *Sadoff & Rudoy Industries*, 728 F.2d 820 (7th Cir. 1984).

Attorney's fees are available to defendants under § 1117 only in exceptional cases. 15 U.S.C. § 1117; *Sanford Research Co.* v. *Eberhard Faber Pen & Pencil Co.*, 379 F.2d 512 (7th Cir. 1967). Such an award has been found merited where an action was brought in bad faith, without an adequate investigation of the merits of the claim. *Viola Sportswear, Inc.* v. *Mimun*, 574 F. Supp. 619, 621 (E.D.N.Y. 1983). In *Mennen Co.* v. *Gillette Co.*, 565 F. Supp. 648 (S.D.N.Y 1983), *aff'd*, 742 F.2d 1437 (2d Cir. 1984) the court awarded attorney's fees, observing that: "[t]here is a substantial overtone in this case to warrant an inference that this suit was initiated as a competi-

tive ploy. As such it carries necessary damage to the defendant when the plaintiff's claims are found, as they are here, to have no real substance." *Id.* at 657. The trademark case alleged by Universal, as recounted above, was initiated for reasons other than a sincere belief in the merits of the underlying claims, and the investigation, or lack thereof, that preceded filing the complaint was designed to avoid discovery of the lack of substance of the complaint. These factors establish that this case was exceptional within the meaning of 15 U.S.C. § 1117 both because it was initiated in bad faith and because the suit was designed to serve ulterior business motives. The award of attorney's fees pursuant to § 1117 provides an additional basis for granting Nintendo its attorney's fees for the successful defense of the Lanham Act claim but should not provide a double recovery.

3. *Rule 11*

Nintendo has also moved for attorney's fees pursuant to Fed. R. Civ. P. 11. Fees are granted pursuant to Rule 11 for Nintendo's defense of Universal's infringement claims. This award is not supplementary to the awards pursuant to the claim for tortious interference and pursuant to § 1117, but provides an additional foundation for reaching the same result.

This case was filed prior to the amendment of Rule 11 on August 1, 1983, and the standard that must be applied is therefore that of the pre-amendment rule. The assertions made in the complaint do not comport with the mandates of Rule 11. In *Eastway Const. Corp.* v. *City of New York*, 762 F.2d 243 (2d Cir. 1985) the Circuit observed that pre-amendment Rule 11 required a subjective finding of bad faith in order to support sanctions. *See Nemeroff* v. *Abelson*, 620 F.2d 339, 348 (2d Cir. 1980). The history of this action, which has been recounted at length above, demonstrates that this standard is met. When the complaint in this action was filed, Universal knew that the allegations of sweeping ownership in King Kong were unsupported by the rights Universal actually possessed. Universal used the lawsuit as part of a larger effort to acquire

some portion of the profits derived from Universal's and Coleco's distribution of Donkey Kong. Universal, and Sheinberg, viewed corporate litigation as a "profit center," and the known insufficiency of the claims asserted did not inhibit the use of litigation where the opportunity for profitable settlement existed. Attorney's fees will be awarded to Nintendo for its defense of Universal's claims.

Rule 11 does not alter the traditional "American Rule" *see Alyeska Pipeline Serv. Co.* v. *Wilderness Society*, 421 U.S. 240, 95 S. Ct. 1612, 44 L. Ed. 2d 141 (1975) with respect to attorney's fees incurred by Nintendo in prosecution of its counterclaims. But *see* section 1, *supra*.

Conclusion

Nintendo's counterclaim for unjust enrichment is denied. Its counterclaims for vicarious copyright infringement and tortious interference with contractual relations are granted, and attorney's fees are awarded as set forth above. Damages as set forth above will be awarded. Submit judgment on notice.

IT IS SO ORDERED.

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

At a stated Term of the United States Court of Appeals for the Second Circuit, held at the United States Courthouse in the City of New York, on the fifteenth day of July one thousand nine hundred and eighty-six.

Present:

HON. THOMAS J. MESKILL, HON. AMALYA L. KEARSE, HON. CHARLES M. METZNER,*

Circuit Judges

[Seal—Filed July 15, 1986]

UNIVERSAL CITY STUDIOS, INC.,

Plaintiff-Appellant, Cross-Appellee,

—against—

NINTENDO CO., LTD. and NINTENDO OF AMERICA, INC.,

Defendant-Appellees, Cross-Appellants.

Docket Nos. 86-7077, 86-7099

* The Honorable Charles M. Metzner of the United States District Court for the Southern District of New York, sitting by designation.

Appeal from the United States District Court for the Southern District of New York.

This cause came on to be heard on the transcript of record from the United States District Court for the Southern District of New York, and was argued by counsel.

ON CONSIDERATION WHEREOF, it is now hereby ordered, adjudged, and decreed that the judgment of said District Court be and it hereby is affirmed in accordance with the opinion of this court with costs to be taxed against the appeallant.

Elaine B. Goldsmith,
Clerk

/s/ EDWARD J. GUARDARO
Edward J. Guardaro
Deputy Clerk

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

UNIVERSAL CITY STUDIOS, INC., a corporation,
Plaintiff,
—vs.—
RKO GENERAL, INC., a corporation, DINO DELAURENTIIS CORPORATION, a corporation, and RICHARD COOPER,
Defendants.

RKO GENERAL, INC., a corporation,
Defendant and Counter-Claimant,
—vs.—
UNIVERSAL CITY STUDIOS, INC., a corporation,
Plaintiff and Counter-Defendant.

RICHARD COOPER,
Defendant and Cross-Complainant,
—vs.—
RKO GENERAL, INC., a corporation,
Defendant and Cross-Defendant.

NO. CV 75-3526-R

FINAL JUDGMENT FOR DAMAGES ON CROSS-COMPLAINT OF RICHARD COOPER

[Filed Jan. 5, 1981]

[Entered Jan. 6, 1981]

The Cross-Complaint of Defendant and Cross-Complainant Richard Cooper came on regularly for trial before the Court, without a jury, on September 1, 1976, the Honorable Manuel L. Real, United States District Judge presiding. Defendant and Cross-Complainant, Richard Cooper, appeared by Kadison, Pfaelzer, Woodard, Quinn & Rossi by Richard K. Simon, Esq. and Lee L. Blackman, Esq.; Defendant, Counter-Claimant, and Cross-Defendant RKO General, Inc. ("RKO") appeared by Lillick, McHose & Charles by Anthony Liebig, Esq. and Andrew W. Robertson, Esq.; and Plaintiff and Counter-Defendant Universal City Studios, Inc. appeared by Rosenfeld, Meyer & Susman by Stephen Kroft, Esq. and Gang, Tyre & Brown by Stanley P. Gold, Esq. The Court, having considered the oral and documentary evidence, the stipulations of counsel, the pretrial memoranda, and having considered the argument of counsel, made and entered Findings of Fact and Conclusions of Law and entered an Interlocutory Judgment on December 21, 1976, thereby, determining certain issues of liability in favor of Richard Cooper and referring the matter to a Special Master to take and report an accounting of Richard Cooper's damages. The Court, having considered the Special Master's Proposed Findings of Fact and Conclusions of Law and Final Report, the transcript of proceedings before the Special Master, the documentary evidence, stipulations, and pleadings submitted to the Special Master, the pleadings, records, and files herein and the argument of counsel, and being duly advised in the premises, and having made its final Findings of Fact and Conclusions of Law, it is

ORDERED, ADJUDGED AND DECREED:

1. That as between RKO and Richard Cooper, all rights in and to the use of the name, character, and story "King Kong", other than the right to produce the motion picture photoplay "King Kong" as published by RKO on February 24, 1933 and to copyright and renew the copyright in the said motion picture photoplay, and the right to produce the motion picture photoplay "Son of Kong" as published by RKO and to copyright

and renew the copyright in the said motion picture photoplay, are exclusively vested in and solely owned by Richard Cooper.

2. That Defendant and Cross-Defendant RKO is a constructive trustee of all of the rights in and to the character, name, and story "King Kong" to the extent they have been exercised by it at any time prior to the date of this Final Judgment, and Richard Cooper is the sole beneficiary of said trust.

3. That Richard Cooper recover from Defendant and Cross-Defendant RKO on his Cross-Complaint damages comprising all profits earned by RKO from the use and the licensing of the use of the name, character, and story "King Kong" in sequels to (excluding "Son of Kong") and remakes of the motion picture photoplay "King Kong" and from the use and licensing of the use of the name, character, and story "King Kong" in connection with the production, distribution, sale, and promotion of games, toys, books, pictures, models, and any other form of merchandising.

4. That the amount of said damages is as follows:

(a) For the period between May 10, 1972 and October 31, 1977, in connection with RKO's licensing of Dino DeLaurentiis Corporation ("DDLC") to remake the motion picture photoplay "King Kong" and to conduct associated merchandising, the sum of $1,601,033.56 plus interest at the legal rate from October 31, 1977.

(b) For the period between May 10, 1972 and December 31, 1976, in connection with RKO's licensing of the name, character, and story "King Kong" for non-DDLC merchandising, the sum of $33,755.20, plus interest at the legal rate from December 31, 1976.

(c) For the periods following October 31, 1977 and December 31, 1976, respectively, and until such time as RKO shall have complied with Paragraphs 6, 7, and 8 hereof, Richard Cooper is entitled to damages comprising:

(1) The gross income received by RKO after October 31, 1977, in connection with the DDLC remake and associated merchandising:

(i) Less expenses incurred in connection with those matters identified in Findings of Fact 43, 44, 45, 46, 47, 48, 49, and 50;

(ii) Less fees and expenses paid to such accounting firm or firms as RKO may employ for the purpose of auditing DDLC's statements;

(iii) Plus interest at the legal rate on the net sum payable, to be computed separately for each period during which RKO receives payments from or on behalf of DDLC.

(2) Eighty-five percent (85%) of the gross income received by RKO after December 31, 1976 in connection with non-DDLC merchandising, plus interest at the legal rate from the date of each subsequent receipt.

5. That the allowance of the Special Master and the costs of said reference, including fees for accounting services, shall be borne by Cross-Defendant RKO.

6. That RKO execute assignments in favor of Richard Cooper, in the form approved by the Court, of each of the outstanding contracts by which RKO has or will obtain money as a result of the use of the name, character, and/or story "King Kong" in connection with sequels to (excluding "Son of Kong") or remakes of the RKO motion picture photoplay "King Kong" and/or in connection with the use of the character, name, or story "King Kong" for the production, distribution, sale, or promotion of any toys, games, books, pictures, models, or any other form of merchandising.

7. That if some or all of the contracts executed by RKO with regard to the activities listed in Paragraph 6 cannot be assigned without the consent of the licensee or licensees thereunder, RKO shall diligently endeavor to obtain such consent.

8. That with regard to those contracts as to which a restraint against assignment continues to exist after RKO has made diligent efforts to obtain assignment, RKO shall regularly and promptly account and pay over to Richard Cooper all of the monies received thereunder.

9. That Cross-Complainant Richard Cooper shall recover his costs to date in connection with the bringing of his Cross-Complaint.

10. That this Judgment shall not affect the finding that the serialization and novel KING KONG are in the public domain.

11. That the Clerk shall enter this Final Judgment forthwith, the Court expressly determining that there is no just reason for delay.

Dated: January 5, 1981

/s/ MANUEL L. REAL
United States District Judge

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

UNIVERSAL CITY STUDIOS, INC., a corporation,
Plaintiff,

—vs.—

RKO GENERAL, INC., a corporation, DINO DELAURENTIIS CORPORATION, a corporation, and RICHARD COOPER,
Defendants.

RKO GENERAL, INC., a corporation,
Defendant and Counter-Claimant,

—vs.—

UNIVERSAL CITY STUDIOS, INC., a corporation,
Plaintiff and Counter-Defendant.

RICHARD COOPER,
Defendant and Cross-Complainant,

—vs.—

RKO GENERAL, INC., a corporation
Defendant and Cross-Defendant.

NO. CV 75-3526-R

FINDINGS OF FACT AND CONCLUSIONS OF LAW ON CROSS-COMPLAINT OF RICHARD COOPER

(Incorporating and supplementing Findings of Fact and Conclusions of Law Entered on December 21, 1976)

The Cross-Complaint of Defendant and Cross-Complainant Richard Cooper came on regularly for trial before the Court and without a jury on September 1, 1976, the Honorable Manuel L. Real, United States District Judge presiding. The Defendant and Cross-Complainant, Richard Cooper, appeared by Kadison, Pfaelzer, Woodard, Quinn & Rossi by Richard K. Simon, Esq. and Lee L. Blackman, Esq.; Defendant and Cross-Defendant RKO General, Inc. appeared by Lillick, McHose & Charles by Anthony Liebig, Esq. and Andrew W. Robertson, Esq.; and Plaintiff and Counter-Defendant Universal City Studios appeared by Rosenfeld, Meyer & Susman by Stephen Kroft, Esq. and by Gang, Tyre & Brown by Stanley P. Gold, Esq. Having considered the oral and documentary evidence, the stipulations of counsel and pretrial memoranda, and having heard argument of counsel, the Court made and entered Findings of Fact and Conclusions of Law and entered an Interlocutory Judgment on December 21, 1976, thereby determining certain issues of liability in favor of Richard Cooper and referring the matter to a Special Master to take and report an accounting of Richard Cooper's damages. The Court, having considered the Special Master's Proposed Findings of Fact and Conclusions of Law and Final Report, the transcript of proceedings before the Special Master, the documentary evidence, stipulations, and pleadings submitted to the Special Master, the pleadings, records, and files herein and the arguments of counsel, and being duly advised in the premises now makes its final Findings of Fact and Conclusions of Law on the Cross-Complaint of Richard Cooper, incorporating and supplementing its Findings and Conclusions as entered on December 21, 1976, as follows:

FINDINGS OF FACT

1. Defendant and Cross-Complainant Richard Cooper is a resident of the State of California. He is the son and heir of Merian C. Cooper and, as has been stipulated by the parties, is the sole legal owner of all of the rights held by Merian C. Cooper during his life in and to the properties and interests more fully described herein.

2. Defendant and Cross-Defendant RKO General, Inc. is a corporation organized and existing under the laws of the State of Delaware and qualified to do, and doing, business in the State of California and is the successor in interest to all of the rights of its predecessor corporation RKO Radio Pictures,Inc. RKO General, Inc. and RKO Radio Pictures, Inc. are hereafter referred to jointly as "RKO".

3. Merian C. Cooper, the father of the Cross-Complainant herein, was in the years 1924 and thereafter the producer and director of documentary-expeditionary motion picture photoplays.

4. During the years 1924 through 1931, Merian C. Cooper became interested in producing a motion picture involving the central character of a giant gorilla. In furtherance of that goal he conducted substantial research into various species of gorillas and their habits with the assistance of his secretary Dagmar Matson (later Dagmar Stickle).

5. In the years 1929 and 1930, Merian C. Cooper discussed the making of the aforesaid motion picture with several persons including Mr. Douglas Burden, then a trustee of the American Museum of Natural History. Mr. Burden had recently returned from an expedition to the Island of Komodo in the Dutch East Indies. He and Merian C. Cooper discussed the expedition at length, and in particular, discussed the fact that Burden had taken his wife to that island and that almost prehistoric animals, the "dragon lizards", continued to survive there. They also discussed the fact that the several Komodo lizards which were returned to the United States for exhibition had survived but a short period of time before being "destroyed by civilization".

6. Sometime during the years 1929, 1930 and prior to October, 1931, Merian C. Cooper reduced his ideas for the "gorilla" motion picture to original written expressions in the form of two or three rough treatments running fifteen to twenty pages in length. The story was then entitled "Kong" and involved the bringing of a giant gorilla back to New York City and having him killed there by "civilization".

44. In connection with its prosecution of *RKO General, Inc.* v. *Key International Film Distributors, Inc.*, United States District Court, District of Colorado, No. CV-A-366, filed April 5, 1976, RKO paid the following fees and expenses as of October 31, 1977:

(a) Fees and expenses paid to Regan, Goldfarb, Heller, Wetzler & Quinn—$9,144.50.

(b) Fees and expenses paid to Holland & Hart—$2.543.52.

Said fees and expenses were reasonable under the circumstances, and are properly deductible from revenues to determine RKO's profits from the DDLC remake.

45. In connection with its prosecution of *RKO General, Inc.* v. *Paul Leder*, United States District Court, Central District of California, No. CV-76-1223-R, filed April 14, 1976, RKO paid the following fees and expenses as of October 31, 1977:

(a) Fees and expenses paid to Regan, Goldfarb, Heller, Wetzler & Quinn—$1,072.50.

(b) Fees and expenses paid to Lillick, McHose & Charles—$9,719.09.

Said fees and expenses were reasonable under the circumstances, and are properly deductible from revenues to determine RKO's profits from the DDLC remake.

46. In connection with its opposition to the Application for Trademark Registration of H. H. Brown Shoe Co., United States Patent & Trademark Office, filed February 9, 1976, RKO paid the following legal fees and expenses as of October 31, 1977:

(a) Fees and expenses paid to Coudert Brothers—$8,324.99.

Said fees and expenses were reasonable under the circumstances, and are properly deductible from revenues to determine RKO's profits from the DDLC remake.

47. RKO paid the following fees and expenses to Rogers-Rowland, Toronto, Canada in connection with "King Kong"

copyright registration in Canada and injunctive relief against a cartoon book published in Canada—$223.24. Said fees and expenses were reasonable under the circumstances and are properly deductible from revenues to determine RKO's profits from the DDLC remake.

48. (a) RKO paid legal fees and expenses to Coudert Brothers "re general advices" in connection with the DDLC remake in the amount of $1,628.47 as of October 31, 1977.

(b) RKO paid legal fees and expenses to Youngman, Hungate & Leopold "regarding the DDLC contract" in the amount of $1,825.00 as of October 31, 1977.

Said fees and expenses were reasonable under the circumstances and are properly deductible from revenues to determine RKO's profits from the DDLC remake.

49. As of October 31, 1977, RKO has paid fees to Ernst & Ernst for an accounting of the financial statements rendered by DDLC in connection with the DDLC remake of "King Kong" in the amount of $2,950.00. Said expenses were reasonable under the circumstances and are properly deductible from revenues to determine RKO's profits from the DDLC remake.

50. RKO incurred direct overhead expenses in connection with "King Kong" matters as of October 31, 1977 as follows:

(a) Direct expenses of Arnold Kaufman—$12,742.52.

(b) Additional telephone room and mail room expenses incurred by reason of the remake of "King Kong" in the amount of $1,087.50.

Said expenses were reasonable under the circumstances and are properly deductible from revenues to determine RKO's profits from the DDLC remake.

51. RKO has failed to present evidence or to carry its burden of proof with respect to the relatedness, reasonableness and necessity of the legal fees and expenses in the sum of $66,417.75 paid to Regan, Goldfarb, Heller, Wetzler & Quinn for what RKO characterizes as "preparation and administration of contracts involving the 'King Kong' remake, including

7. Prior to October, 1931 Merian C. Cooper conceived of the name "Kong" to identify the giant gorilla he had created. During this period of time, he also conceived of the idea of the giant gorilla standing at the top of the Empire State Building making a "last stand" against attacking airplanes while attempting to protect the beautiful American girl he loved.

8. Prior to October, 1931 Merian C. Cooper disclosed his "Kong" story to several persons including David Bruce and David O. Selznick. He also discussed the possibility of making a motion picture based upon that story with a representative or representatives of Paramount Pictures.

9. In or about October, 1931 David O. Selznick was appointed Head of Production for RKO in Hollywood. Before Selznick's departure from New York for Hollywood David Bruce, David Selznick and Merian C. Cooper discussed Cooper's ideas for a "Kong" motion picture and it was decided that Merian C. Cooper would go to Hollywood to talk to Mr. Selznick about it after Selznick had taken over his new position.

10. In October of 1931 Merian C. Cooper traveled to Hollywood and formally proposed the making of his "Kong" motion picture to David Selznick. While this proposed motion picture was being considered by RKO, and before Merian C. Cooper had been placed on salary or employed by RKO, Merian C. Cooper had several artists prepare a number of sketches under his direction illustrating scenes from his story. Among the illustrations was one depicting airplanes shooting at the giant gorilla who was standing on the Empire State Building holding a beautiful girl in his hand.

11. Prior to being employed by RKO, Merian C. Cooper showed his treatments of the "Kong" story and the aforesaid illustrations to David O. Selznick, who approved the making of a test sequence based on a portion of that story.

12. On or about November 10, 1931 Merian C. Cooper met with Fay Wray. In that meeting he discussed the "Kong"

motion picture project and showed her several sketches of scenes from the proposed motion picture including one of "Kong" on the Empire State Building. He told her that the story would be about an expedition going to some remote place and capturing an extraordinary creature who would be returned to New York. He also told her that he needed a blonde to play against the dark gorilla and that the gorilla would be shown through miniatures rather than by using a live gorilla.

13. Subsequent to November 10, 1931 and prior to January 1932, Merian C. Cooper began direction of an initial test sequence for the "Kong" motion picture which, after production, was substantially incorporated into the final motion picture.

14. On January 9, 1932 Merian C. Cooper executed an employment contract with RKO.

15. Merian C. Cooper was not an employee of RKO prior to January 9, 1932, although he acted as a consultant to David O. Selznick.

16. Prior to January 9, 1932 RKO had no power, authority or right to direct or control the work done by Merian C. Cooper with respect to the story of "King Kong" or the filming thereof.

17. The name, character, and story "King Kong" were not created for RKO by Merian C. Cooper as works for hire.

18. No rights of any kind to use or license the use of the character, name, and/or story "King Kong" were conveyed to RKO by the January 9, 1932 employment agreement.

19. On January 23, 1932 Merian C. Cooper executed an "Assignment" with reference to the "Kong" story. As of that date, the essential elements of the story, as ultimately embodied in the RKO motion picture photoplay "King Kong", had been created by Merian C. Cooper, and actual production of that motion picture photoplay had begun.

20. The January 23, 1932 "Assignment" granted RKO only the right to produce one motion picture photoplay using the

character, name, and story "King Kong", and the parties thereto so understood.

21. All rights not specifically granted to RKO in the January 23, 1932 Assignment were reserved by the assignors.

22. RKO was not granted the right to use or license the use of the character, name, and/or story "King Kong" in connection with sequels to the RKO motion picture "King Kong" by the January 23, 1932 Assignment.

23. RKO was not granted the right to use or license the use of the character, name, and/or story "King Kong" in connection with remakes of the RKO motion picture "King Kong" by the January 23, 1932 Assignment.

24. RKO was not granted the right to use or license the use of the character, name, and/or story "King Kong" in connection with the production, distribution, sale, or promotion of toys, games, books, pictures, models, or any other form of merchandising by the January 23, 1932 Assignment.

25. Among the "good and valuable consideration" tendered by RKO in the January 23, 1932 Assignment was the implied promise that RKO would not exploit any of the rights which were not specifically conveyed to RKO therein.

26. The motion picture photoplay "King Kong" was completed in 1933 and first published on February 24, 1933.

27. On June 15, 1933 Merian C. Cooper executed an Assignment with respect to a sequel to "King Kong", originally titled "Jamboree" and later titled "Son of Kong". By this Assignment RKO was granted the right to produce a single motion picture photoplay sequel to the motion picture "King Kong", and all other rights were reserved by Merian C. Cooper.

28. The Assignments of January 23, 1932 and June 15, 1933 and the Employment Agreement of January 9, 1932 were prepared by or for RKO. There is no evidence that Merian C. Cooper was represented by and did consult with counsel prior to the execution of any of these documents.

29. On October 28, 1935 Mr. Daniel O'Shea, the attorney in charge of the Legal Department of the RKO Studio in Los Angeles, was asked by RKO to analyze the Assignment of January 23, 1932 and in that analysis acknowledged with respect to sequel rights that the language of that Assignment was neither clear nor definitive.

30. On November 11, 1952 an attorney employed by RKO was asked by RKO to analyze the Assignment of January 23, 1932 and in that analysis acknowledged that Merian C. Cooper reserved all rights not specifically granted, including the rights to novelize, dramatize, and publish the story.

31. Since 1932 RKO has granted licenses or permissions for, or has otherwise allowed or approved, the making of motion pictures using the name, character, and/or story of "King Kong", including "King Kong vs. Godzilla" (1963); "King Kong Escapes" (1968); "King Kong" (1966—an animated cartoon T.V. film series) and "King Kong" (licensed in 1975—released in 1976).

32. Since 1932, and to the present date, RKO has granted licenses or permissions for, or has otherwise allowed or approved, the use of the name, character, and/or story "King Kong" in connection with the production, distribution, sale, or promotion of toys, games, books, pictures, models, and other forms of merchandising.

33. Merian C. Cooper did not learn of RKO's merchandising of the character, name, and story "King Kong" until 1964 when the motion picture "King Kong vs. Godzilla" was released and a toy model of the "King Kong" character was distributed by Aurora Plastics, both licensees of RKO.

34. Immediately after receiving notice that RKO was engaging in such licensing activities Merian C. Cooper informed RKO that these activities were violative of his rights in the character, name, and story "King Kong" which he informed RKO encompassed all of the licensing being undertaken by RKO with regard to the merchandising of the character, name,

and story "King Kong" and the licensing of any new motion picture utilizing the character, name, or story of "King Kong".

35. Merian C. Cooper's assertion of his rights continued until his death on April 21, 1973 and RKO had notice of Merian C. Cooper's assertion that he was the original creator and exclusive owner of the name, character, and story "King Kong" and that the only rights ever granted by him to RKO were the rights to exhibit and exploit the original "King Kong" motion picture and the motion picture sequel "Son of Kong".

36. Neither Merian C. Cooper nor Richard Cooper consented to, approved, or permitted RKO's licensing of the use of the name, character, or story "King Kong" in connection with any motion picture subsequent to the 1933 RKO motion picture, other than "Son of Kong", or in connection with the production, distribution, sale, or promotion of any toys, games, books, pictures, models, or any other form of merchandising.

37. Neither Merian C. Cooper nor Richard Cooper abandoned their claimed rights in and to the name, character, and story "King Kong".

38. Neither Merian C. Cooper nor Richard Cooper waived their claimed rights in and to the name, character, and story "King Kong".

39. Neither Merian C. Cooper nor Richard Cooper acted toward or made statements to RKO which could reasonably have led RKO to believe that either had relinquished, abandoned, or waived their claimed rights in and to the name, character, and story "King Kong".

40. Neither Merian C. Cooper nor Richard Cooper acted toward or made statements to RKO which could reasonably have led RKO to believe that either agreed to, approved, consented to, or permitted RKO to license the name, character, or story "King Kong" in connection with any motion picture subsequent to the 1933 RKO motion picture, other than "Son of Kong", or in connection with the production, distribution,

sale, or promotion of any toys, games, books, pictures, models, or any other form of merchandising.

41. From May 10, 1972 (the first date after which Richard Cooper may recover damages under the applicable statute of limitations) to December 31, 1976 RKO received revenues of $39,712 from merchandising unrelated to that undertaken pursuant to the 1975 license granted to the Dino DeLaurentiis Corporation (referred to in Finding of Fact number 31). Fifteen percent (15%) of said $39,712 (or $5,956.80) is deductible as commissions and other expenses related to such revenue, leaving a profit in the amount of $33,755.20.

42. RKO has received payments from or on behalf of Dino DeLaurentiis Corporation ("DDLC") in connection with the DeLaurentiis remake of "King Kong" and related merchandising (hereinafter sometimes the "DDLC remake"), between May 10, 1972 and October 31, 1977, in the amount of $1,685,800.32.

43. In connection with its prosecution of *RKO General Inc. and Dino DeLaurentiis Corporation* v. *Dexter Films, Inc., et al.*, High Court of Justice, Chancery Division, London, England, filed November 1, 1976, RKO paid the following legal fees and expenses as of October 31, 1977:

(a) Fees and expenses paid to Regan, Goldfarb, Heller, Wetzler & Quinn—$12,602.09.

(b) Fees and expenses paid to Wilde, Sapte & Co.—$15,274.59.

(c) Fees and expenses paid to Coudert Brothers—$4,235.65.

(d) Fees and expenses paid to William Rith (Literary expert)—$392.50.

(e) Commission for English Injunction Bond—$1,000.60.

Said fees and expenses were reasonable under the circumstances, and are properly deductible from revenues to determine RKO's profits from the DDLC remake.

merchandising, protection of the title in the Motion Picture Association of America, registration procedures, policing of unauthorized uses of King Kong title, name and character, trademark problems and related matters". RKO has also failed to demonstrate what portion or portions of the above expenses were incurred in connection with the non-DDLC merchandising income. Said fees and expenses are, therefore, not deductible from revenues to determine RKO's profits from the DDLC remake.

52. RKO paid Sidney Korshak, Esq., in connection with the Universal-RKO litigations referred to herein, the sum of $50,000.00. Said fees and expenses were not reasonable under the circumstances and are not properly deductible from revenues to determine RKO's profits from the DDLC remake.

53. RKO reimbursed Regan, Goldfarb, Heller, Wetzler & Quinn for its cash disbursements in connection with the various referenced litigations, in the amount of $11,295.30. RKO has failed to present evidence or to carry its burden of proof with respect to the relatedness, reasonableness and necessity of the cash disbursements reimbursed to Regan, Goldfarb, Heller, Wetzler & Quinn in connection with the various litigations. RKO has also failed to demonstrate what portion, if any, of those cash disbursements were paid in connection with the Universal-RKO litigations. Said cash disbursements are, therefore, not deductible from revenues to determine RKO's profits from the DDLC remake.

54. With the exception of the expenses identified in Finding of Fact number 50(b), RKO did not incur any expenses in the nature of overhead, including without limitation, rent, maintenance or utilities, by reason of the DDLC remake of "King Kong" which it would not have incurred in the ordinary course of its business had that remake not been produced or the DDLC contract not been entered into. RKO has failed to produce evidence or to carry its burden of proof with respect to such portions of its claimed "overhead" expenses or other claimed deductions.

55. RKO's withdrawal from distribution of the original motion picture photoplay "King Kong" was entirely voluntary and not compelled by its agreement with DDLC and not required by the ordinary course of business. Any losses allegedly sustained by RKO as a result of this withdrawal are not deductible from revenues to determine RKO's profits from the DDLC remake.

56. The actions entitled *Universal City Studios, Inc.* v. *RKO General, Inc., Dino DeLaurentiis Corporation, Dino DeLaurentiis* (Los Angeles Superior Court Case No. 125 242) and *Universal City Studios, Inc.* v. *RKO General, Inc., Dino DeLaurentiis Corporation, Richard Cooper* (United States District Court, Central District of California Case No. CV-75-3526-R) were each commenced as a sole and direct result of the contract entered into between Universal and RKO (per Findings of Fact and Conclusions of Law on Count I of RKO's Counter-Claim herein) and RKO's rejection of same. Expenses related to the above-entitled actions were not reasonably or necessarily incurred and arose out of a transaction wholly separate from that creating RKO's remake income and are not deductible from revenues to determine RKO's profits from the DDLC remake.

CONCLUSIONS OF LAW

1. The Court has jurisdiction of this Cross-Complaint pursuant to Title 28 U.S.C. sections 1332, 1338, and 2201 and the doctrine of pendant jurisdiction.

2. The name, character, and story "King Kong" were not created for RKO by Merian C. Cooper as works for hire.

3. No rights of any kind to use or license the use of the character, name, and/or story "King Kong" were conveyed to RKO by the January 9, 1932 employment agreement.

4. The January 23, 1932 Assignment granted RKO the right to produce one motion picture photoplay using the character, name, and story "King Kong".

5. All rights not specifically granted to RKO in the January 23, 1932 Assignment were reserved by the assignors.

6. RKO was not granted the right to use or license the use of the character, name, and/or story "King Kong" in connection with sequels to the RKO motion picture "King Kong" by the January 23, 1932 Assignment.

7. RKO was not granted the right to use or license the use of the character, name, and/or story in connection with remakes of the RKO motion picture "King Kong" by the January 23, 1932 Assignment.

8. RKO was not granted the right to use or license the use of the character, name, and/or story "King Kong" in connection with the production, distribution, sale, or promotion of toys, games, books, pictures, models, or any other form of merchandising by the January 23, 1932 Assignment.

9. Prior to his death, and as between RKO and Merian C. Cooper, Merian C. Cooper was the sole owner of all rights in and to the use of the character, name, and story "King Kong" with the exception of the right to produce a single motion picture entitled "King Kong", which right was conveyed to RKO, and the right to produce a sequel to said motion picture which was entitled "Son of Kong", which right was also conveyed to RKO.

10. After the death of Merian C. Cooper, and as between RKO and Richard Cooper, Richard Cooper was the sole owner of all rights in and to the use of the character, name, and story "King Kong".

11. The Agreement of January 23, 1932 contained an implied promise that RKO would not exploit any of the rights not specifically conveyed to RKO.

12. The licensings by RKO of the use of the character, name, and story "King Kong" in sequels to the original motion picture, other than "Son of Kong", constitute breaches of the express and implied terms of the Assignment of January 23, 1932.

13. The licensing by RKO of the character, name, and story "King Kong" for use in a remake of the original motion picture constitutes a breach of the express and implied terms of the Assignment of January 23, 1932.

14. The licensings by RKO of the use of the character, name, and/or story "King Kong" in connection with the production, distribution, sale, and promotion of toys, games, books, pictures, models, and every other form of merchandising constitute breaches of the express and implied terms of the Assignment of January 23, 1932.

15. The profits made and licenses obtained by RKO by reason of the breaches referred to in Conclusions of Law numbers 12, 13, and 14 were wrongfully obtained and have been wrongfully withheld from Merian C. Cooper and Richard Cooper.

16. Richard Cooper is not estopped to assert his claims for declaratory relief, for an accounting, and for damages.

17. The claims of Richard Cooper are not barred by the doctrine of laches.

18. By reason of the wrongful conduct of RKO in obtaining and retaining the profits and licenses referred to in Conclusion of Law number 15, RKO holds the aforesaid profits and licenses as constructive trustee for the sole benefit of Richard Cooper.

19. Richard Cooper is entitled to an accounting for and payment of all profits earned by RKO from its licensings of the character, name, and/or story "King Kong" for use in sequels (excluding "Son of Kong") and remakes of the original motion picture and for the use in connection with the production, distribution, sale, and promotion of toys, games, books, pictures, models, and/or any other form of merchandising.

20. Richard Cooper is entitled to a declaration that RKO was not granted, and did not and does not have, any rights to the use of the story, character, or name of "King Kong" other

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

UNIVERSAL CITY STUDIOS, INC., a corporation,
Plaintiff,

—vs.—

RKO GENERAL, INC., a corporation, et al.,
Defendants.

RKO GENERAL, INC., a corporation,
Defendant and Counterclaimant,

—vs.—

UNIVERSAL CITY STUDIOS, INC., a corporation,
Plaintiff and Counterdefendant.

RICHARD COOPER,
Defendant and Cross-Complainant,

—vs.—

RKO GENERAL, INC., a corporation,
Defendant and Cross-Defendant.

NO. CV 75-3526-R

ORDER

[Filed Jan. 5, 1981]

[Entered Jan. 6, 1981]

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The above-captioned matter came on regularly for hearing pursuant to an Order of the Court of Appeals for the Ninth Circuit issued on October 8, 1980, and spread upon the minutes of this Court on November 24, 1980, before the Court on Monday, December 15, 1980, the Honorable Manuel L. Real, Judge presiding, and the plaintiff having appeared by its counsel, Rosenfeld, Meyer & Susman and Stephen A. Kroft, and defendant Richard Cooper having appeared by his counsel, Kadison, Pfaelzer, Woodard, Quinn & Rossi and Richard Simon and Lee Blackman and no appearance having been made on behalf of defendant RKO General, Inc., and the Court having considered the October 8, 1980, Order of the Court of Appeals and Defendant Cooper's request for attorneys' fees and costs in connection therewith, and having heard argument of counsel, and good cause appearing therefor,

IT IS HEREBY ORDERED that:

1. The Judgment of this Court previously entered herein on March 21, 1979, in favor of Richard Cooper, cross-claimant and against RKO General, Inc., cross-defendant, and vacated by the October 8, 1980, Order of the Court of Appeals shall be reinstated. A duplicate original of said Judgment, which has been signed by the Court concurrently herewith, shall be filed and entered by the Clerk forthwith.

2. The Complaint previously filed herein against defendant Richard Cooper, having become moot by reason of settlement

agreements between plaintiff and each of defendants, is hereby dismissed without prejudice, each party to bear its own costs in connection with prosecuting and defending the Complaint.

3. Defendant Richard Cooper's request for an order requiring plaintiff to pay his attorneys' fees and costs as a condition to the dismissal ordered in Paragraph 2 hereof is denied.

DATED: January 5, 1981

/s/ MANUEL L. REAL

Manuel L. Real
United States District Judge

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UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

UNIVERSAL CITY STUDIOS, INC., a corporation, *Plaintiff*, —vs.— RKO GENERAL, INC., a corporation, DINO DELAURENTIIS CORPORATION, a corporation, and RICHARD COOPER, *Defendants.*	NO. CV 75-3526-R **JUDGMENT** [Lodged Sept. 24, 1976] [Filed Dec. 9, 1976] [Entered Dec. 21, 1976]

RKO GENERAL, INC.,
a corporation,
Defendant and Counter-Claimant,

—VS.—

UNIVERSAL CITY STUDIOS, INC., a corporation,
Plaintiff and Counter-Defendant.

RICHARD COOPER,
Defendant and Cross-Complainant,

—VS.—

RKO GENERAL, INC.,
a corporation
Defendant and Cross-Defendant.

This cause came on regularly for trial commencing on September 1, 1976, before the Court sitting without a jury, Gang, Tyre & Brown by Bruce M. Ramer and Stanley P. Gold, and Rosenfeld, Meyer and Susman by Allen E. Susman and Stephen A. Kroft, as attorneys for plaintiff and cross-defendant Universal City Studios, Inc.; Lillick, McHose & Charles by Anthony Liebig, Kenneth E. Kulzick and Andrew W. Robertson, and Youngman, Hungate & Leopold by Louis P. Petrich, attorneys for defendant, counterclaimant and cross-defendant RKO General, Inc.; and Kadison, Pfaelzer, Woodard, Quinn & Rossi by Richard K. Simon and Lee L. Blackman, attorneys for defendant and cross-complainant

Richard Cooper; no appearance at trial by counsel for defendant Dino DeLaurentiis Corporation having been made. The Court, having heard the testimony and having examined the proofs and evidence offered by the respective parties, and the cause having been submitted for decision, and the Court being fully advised in the premises, and having made its findings of fact and conclusions of law directing that judgment be entered in favor of plaintiff and counterdefendant Universal City Studios, Inc., and against all defendants, it is hereby:

DECLARED, ORDERED, ADJUDGED AND DECREED that:

1. With reference to the novel entitled "King Kong" which was initially published by Grosset & Dunlap, Inc. and copyrighted by said company, the purported renewal of copyright therein by Patricia Marion Caldecott Frere and the Certificate of Registration of a Claim to Renewal Copyright, No. 251,390, issued to her, was and is of no force or validity. Said novel is and has been in the public domain since December 27, 1960, the date of expiration of the original term of copyright therein.

2. With reference to the two-part serialization of the work entitled "King Kong" initially published by Tower Magazines, Inc. in the February 1933 and March 1933 issues of its publication "Mystery Magazine" and copyrighted by said company, said two-part serialization is and has been in the public domain since expiration of the respective original terms of copyright in said issues of "Mystery Magazine." The original term of copyright in the February 1933 issue of "Mystery Magazine" expired on December 20, 1960, and the original term of copyright in the March 1933 issue of "Mystery Magazine" expired on January 23, 1961.

3. Plaintiff Universal City Studios, Inc. may produce, sell, distribute, exhibit and otherwise exploit a motion piction based on and using any and all elements contained in the works declared to be in the public domain in Paragraphs 1 and 2 of this Judgment, above, and to entitle such motion picture "King Kong," so long as plaintiff does not, during the remaining

than in connection with the production and release of the motion picture "King Kong" and the motion picture "Son of Kong"; that RKO was not granted, and did not and does not have the right to license the story, character, or name "King Kong" for merchandising or any other purposes; that as between Richard Cooper and RKO, Richard Cooper is the sole owner of all such rights in and to the story, character, and name "King Kong"; and that RKO holds all monies and licenses heretofore or hereafter received or executed as a result of the exercise of licensing of rights to the use of the story, character, or name "King Kong" as trustee for and on behalf of Richard Cooper.

21. Richard Cooper's damages for the period between May 10, 1972 (the first date after which Richard Cooper may recover damages under the applicable statute of limitations) and December 31, 1976, on account of RKO's non-DDLC merchandising, are $33,755.20, plus interest at the legal rate from that date.

22. Richard Cooper's damages, for all periods after December 31, 1976, on account of RKO's non-DDLC merchandising, shall be eighty-five percent (85%) of the gross non-DDLC merchandising income received by RKO, plus interest at the legal rate from the date of each subsequent receipt.

23. Richard Cooper's damages for the period between May 10, 1972 and October 31, 1977, on account of the DDLC remake of "King Kong" and related merchandising, are $1,601,033.56, plus interest at the legal rate from October 31, 1977.

24. Richard Cooper's damages, for all periods after October 31, 1977, on account of the DDLC remake and related merchandising, shall be RKO's gross income therefrom:

(a) Less expenses actually incurred after October 31, 1977 in connection with those matters identified in Findings of Fact numbers 43, 44, 45, 46, 47, 48, 49, and 50;

(b) Less fees and expenses actually paid after October 31, 1977 to such accounting firm or firms as RKO may employ for the purpose of auditing DDLC's statements;

(c) Plus interest at the legal rate on the net sum payable, to be computed separately for each period during which RKO receives payments from DDLC.

25. These Findings of Fact and Conclusions of Law declare the rights as between Richard Cooper and RKO and do not affect any other entity or person.

To the extent that any of the Findings of Fact set forth above are deemed to be Conclusions of Law, and to the extent that any of the foregoing Conclusions of Law are deemed to be Findings of Fact, the same shall be deemed to be Conclusions of Law or Findings of Fact as the case may be.

Dated: March 19, 1979

/s/ MANUEL L. REAL

Manuel L. Real
United States District Judge

period of the term of renewal copyright in the motion picture entitled "King Kong" owned by defendant RKO General, Inc., copy copyrightable matter contained in said motion picture of RKO General, Inc. which is not contained in said works declared to be in the public domain in Paragraphs 1 and 2 of this Judgment, above. Such a motion picture produced by plaintiff Universal City Studios, Inc. will not infringe upon the renewal copyright in the motion picture owned by defendant RKO General, Inc. or upon any of defendants' other rights.

4. Counterclaimant RKO General, Inc. shall take nothing under either Count I or Count II of its Counterclaim against counterdefendant Universal City Studios, Inc.; and said counterclaim is hereby dismissed on the merits.

5. Universal City Studios, Inc. shall have and recover its costs of suit against defendants RKO General, Inc. and Richard Cooper.

6. The Clerk shall enter this Judgment forthwith, the Court expressly determining that there is no just reason for delay.

Dated: November 24, 1976.

/s/ MANUEL L. REAL
United States District Judge

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UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

UNIVERSAL CITY STUDIOS, INC., a corporation, *Plaintiff*, —vs.— RKO GENERAL, INC., a corporation, DINO DELAURENTIIS CORPORATION, a corporation, and RICHARD COOPER, *Defendants.*	NO. CV 75-3526-R **FINDINGS OF FACT AND CONCLUSIONS OF LAW** [Lodged Sept. 24, 1976] [Filed Dec. 9, 1976]

RKO GENERAL, INC.,
a corporation,
Defendant and Counter-Claimant,

—VS.—

UNIVERSAL CITY STUDIOS, INC., a corporation,
Plaintiff and Counter-Defendant.

RICHARD COOPER,
Defendant and Cross-Complainant,

—VS.—

RKO GENERAL, INC.,
a corporation,
Defendant and Cross-Defendant.

This cause came on regularly for trial commencing on September 1, 1976, before the Court sitting without a jury, Gang, Tyre & Brown by Bruce M. Ramer and Stanley P. Gold, and Rosenfeld, Meyer & Susman by Allen E. Susman and Stephen A. Kroft, as attorneys for plaintiff and cross-defendant Universal City Studios, Inc. ("Universal"); Lillick, McHosa & Charles by Anthony Liebig, Kenneth E. Kulzick and Andrew W. Robertson, and Youngman, Hungate & Leopold by Louis P. Petrich, attorneys for defendant, counter-claimant and cross-defendant RKO General, Inc. ("RKO"); and Kadison, Pfzelzar, Woodard, Quinn & Rossi by Richard K. Simon and Lee L. Blackman, attorneys for defendant and cross-complainant Richard Cooper ("defendant

Cooper"); no appearance at trial by counsel for defendant Dino DeLaurentiis Corporation having been made. The Court, having heard the testimony and having examined the proofs and evidence offered by the respective parties, the counterclaim by defendant Dino DeLaurentiis Corporation having heretofore been dismissed pursuant to stipulation and order thereon, and the cause having been submitted for decision, and the Court being fully advised in the premises, makes its findings of fact, as follows:

UNIVERSAL'S COMPLAINT

Findings of Fact

1. The work entitled "King Kong" (sometimes referred to herein as the "Story") consists of the story of the search for, and discovery of, a giant gorilla known as "Kong" or "King Kong," and his ultimate capture and destruction. The Story includes all of the elements thereof, including, without limitation, the characters, characterizations, character names, the interplay and development of such characters, the plots, action, dialogue, themes, settings and all other parts and portions thereof (collectively, "elements"), as contained in the Mystery Magazine Serializations (as defined below) and the Novel (as defined below). The Story was published and copyrighted in the following chronological order:

(a) The first segment of the Story was published by Tower Magazines, Inc. in the February 1933 issue of its publication entitled "Mystery Magazine" (hereafter "First Serialization") and copyrighted in its name; the date of first publication thereof was December 20, 1932.

(b) The entire Story was published in the form of a novel entitled "King Kong" (hereafter "Novel"), by Grosset & Dunlap, Inc. and copyrighted in its name; the date of first publication thereof was December 27, 1932.

(c) The second segment of the Story was published by Tower Magazines, Inc. in the March 1933 issue of its

publication entitled "Mystery Magazine" (hereafter "Second Serialization") and copyrighted in its name; the date of first publication thereof was January 23, 1933. (The First Serialization and the Second Serialization are jointly sometimes referred to herein as the "Mystery Magazine Serializations.")

(d) The Story was published in the form of a motion picture entitled "King Kong" (hereafter "Motion Picture") by RKO's predecessor and copyrighted in its name; the date of first general release thereof was February 24, 1933. All right, title and interest of such predecessor in the Motion Picture have devolved upon RKO.

2. No renewal of the copyright in the Mystery Magazine Serializations was attempted or secured by anyone.

3. Patricia Marion Caldecott Frere (hereafter "Frere"), a daughter of Edgar Wallace (hereafter "Wallace"), filed an application for a Claim to Renewal Copyright in the Novel on February 2, 1960, claiming as the proprietor of a posthumous work. A Certificate of Registration of a Claim to Renewal Copyright No. R 251,390 (hereafter "Frere renewal") was issued to her by the U.S. Copyright Office. No one other than Frere applied for or received a Certificate of Registration of a Claim to Renewal Copyright in the Novel. In September 1964, Frere quitclaimed her interest in the Frere renewal to Marian C. Cooper (hereafter "Cooper").

4. RKO renewed the copyright in the Motion Picture on December 5, 1960, and was issued a Certificate of Registration of a Claim to Renewal Copyright No. R 267,274.

5. Prior to any contacts by Cooper with either RKO or Wallace in 1931, Cooper had conceived and reduced to concrete expression the basic elements of the Story.

6. Wallace first started working with Cooper in writing a screenplay to embody the Story not earlier than December 23, 1931.

7. Cooper and Wallace executed a document dated January 23, 1932, entitled an Assignment of All Rights, granting to RKO the right to produce and distribute a motion picture embodying the Story, but reserving the right to publish the Story in book and serial form. There is no evidence that, by such reservation, Cooper and Wallace intended to or did alter their respective rights and interests in the Story *inter se*; by such assignment and reservation, Wallace did not receive any ownership interest in the Story. Neither Wallace nor his Estate at any time had an ownership interest, either legal or equitable, in the Story or the Novel or the Mystery Magazine Serializations.

8. Wallace died on February 10, 1932, a resident of London, England, survived by his widow and children, among them Frere. In 1932, after Wallace's death, all of his rights in literary properties and copyrights passed to his Estate. Thereafter, on May 25, 1934, all such rights passed to a British corporation called Edgar Wallace, Ltd.

9. Wallace wrote a screenplay containing elements of the Story previously conceived by Cooper prior to Wallace's death.

10. The screenplay written by Wallace was abandoned and was not utilized in the production of the Motion Picture or in the writing of the Mystery Magazine Serializations or the Novel.

11. The Motion Picture as produced was based upon a screenplay written by James Ashmore Creelman and Ruth Rose after the death of Wallace, and does not use or embody, and was not based upon, any contribution by Wallace.

12. Wallace did not create, contribute or write anything contained in the Motion Picture, the Mystery Magazine Serializations or the Novel. Specifically, but not in limitation of the foregoing, it is not true that Wallace created, contributed to or wrote: (i) any of the elements of the Story, including any elements of the Motion Picture, Novel and Mystery Magazine Serializations; (ii) any ideas or elements concerning King

Kong's undressing the heroine; or (iii) any ideas or elements concerning the fight scene between King Kong and a meat-eating dinosaur, or the treatment of the heroine during such scene.

13. In or around September 1932, RKO arranged for publication of the Mystery Magazine Serializations. Cooper was aware of and authorized these arrangements prior to such publication.

14. Subsequent to the publication of the First Serialization, Cooper also consented to and ratified such publication.

15. The Estate of Wallace ("Wallace Estate"), through its legal representative, T.M. Till, consented to and ratified the publication of the Mystery Magazine Serializations by agreeing with Cooper to accept one-half of Cooper's receipts from the exploitation of said Mystery Magazine Serializations and by making no objection to such publication thereafter.

16. RKO and Cooper arranged for, and Cooper authorized publication of the Novel by Grosset & Dunlap, Inc., and Cooper permitted Grosset & Dunlap, Inc. to copyright the Novel in its name as the copyright proprietor.

17. The writing, and all arrangements for publication, of the Mystery Magazine Serializations and of the Novel were made after the death of Wallace.

18. The Wallace Estate, through its legal representative, T.M. Till, consented to and ratified the acts of Cooper described in Finding of Fact No. 16, above, by agreeing with Cooper to accept one-half of Cooper's receipts from the exploitation of the Novel and by making no objection to its publication thereafter.

19. At all times appropriate for the filing of application for, or issuance of, Certificate of Registration of a Claim to Renewal Copyright in the Novel, Frere was not the distributee, assignee or successor in interest to any claim of ownership of the Wallace Estate in the Novel or the copyright therein.

20. At all times appropriate for the filing of application for, or issuance of, Certificate of Registration of a Claim to Renewal Copyright, Frere was not the distributee, assignee or successor in interest to any claim of ownership of Edgar Wallace, Ltd. in the Novel or the copyright therein. Frere, in filing the copyright renewal application in her name was not authorized to, and did not, act on behalf of Edgar Wallace, Ltd.

21. At all times appropriate for the filing of application for, or issuance of, Certificate of Registration of a claim to Renewal Copyright in the Novel, Grosset & Dunlap, Inc. was the proprietor of the copyright in the Novel.

22. Cooper died on April 21, 1973. Defendant Cooper has succeeded to all claimed right, title and interest of Cooper in the subject matter of this action.

23. Universal is engaged, among other things, in the business of producing and distributing motion pictures. It presently intends, and has the present ability, to make a motion picture based on the Story or elements thereof as contained in the Mystery Magazine Serializations and the Novel, when the decision in this action permitting it so to do becomes final.

24. In furtherance of its aforementioned intention, Universal has expended substantial time, effort and money on production activities prior to commencement of principal photography. As a result thereof, it has, among other things, developed valuable techniques, mechanical devices and other equipment which it intends to utilize in production of its motion picture when permitted to do so by final judgment in this action.

25. A dispute exists between plaintiff and defendants, as follows:

(a) RKO and defendant Dino De Laurentiis Corporation assert that RKO has exclusive rights (except to the extent of any rights which may have been reserved ori-

ginally by Cooper and Wallace, and except insofar as licensed by RKO) to the Story by virtue of its copyright and renewal copyright in the Motion Picture.

(b) The defendant Cooper asserts that the Mystery Magazine Serializations were unauthorized by Cooper and therefore did not divest the Story of common law copyright protection; and that the copyright in the Novel has been validly renewed and is owned by him.

(c) Universal asserts that the Story is in the public domain and that it has the right to make a motion picture based on and using the Story or elements thereof, as contained in the Mystery Magazine Serializations and the Novel so long as Universal's motion picture does not copy other copyrightable materials which are contained in the Motion Picture but which are not contained in the Mystery Magazine Serializations or the Novel.

CONCLUSIONS OF LAW

1. This action arises under the Copyright Act of the United States, Title 17, United States Code. A case of actual controversy exists between Universal, on the one hand, and the defendants, on the other. The Court has jurisdiction of this action pursuant to the provisions of Title 23, United States Code, Sections 1338(a) and 2201.

2. The first segment of the Story, as embodied in the First Serialization, is now, and since the expiration on December 20, 1960 of the original term of copyright therein has been, in the public domain.

3. The entire Story, as embodied in the Novel, is now, and since the expiration on December 27, 1960 of the original term of copyright therein has been, in the public domain.

4. The second segment of the Story, as embodied in the Second Serialization, is now, and since the expiration on

January 23, 1961 of the original term of copyright therein has been, in the public domain.

5. Wallace was not an author or joint author of the Story under the Copyright Act, and neither Wallace, the Wallace Estate, Edgar Wallace, Ltd. nor Frere was a legal or equitable owner or joint owner of the Story, the Novel or the Mystery Magazine Serializations, or the copyrights therein. Neither Grosset & Dunlap, Inc. nor Cooper ever owned or held any title or interest in the Novel or copyright therein as trustee, constructive or otherwise, for Wallace, the Wallace Estate, Edgar Wallace, Ltd. or Frere.

6. The purported renewal of copyright in the Novel by Frere was invalid, and the Certificate of Registration of a Claim to Renewal Copyright issued to her was and is of no force or validity.

7. The publication of the Story in the Mystery Magazine Serializations and the Novel divested the Story of common law copyright protection. After such publication, the only protection for the Story as contained in the Mystery Magazine Serializations and the Novel was under the Copyright Act of the United States. The Motion Picture is a derivative work, having been published and copyrighted subsequent to the publication and copyright of the Novel and the Mystery Magazine Serializations. Consequently, from and after the time that the Novel and Mystery Magazine Serializations entered the public domain, only the copyrightable matter in the Motion Picture which is not contained in the Novel or Mystery Magazine Serializations has been and is protected by RKO's copyright and renewal copyright in the Motion Picture.

8. Universal may produce, sell, distribute and exhibit a motion picture based on and using the Story or elements thereof so long as Universal does not copy copyrightable matter contained in the Motion Picture but not contained in the Mystery Magazine Serializations or Novel. Such a motion picture will not infringe upon the copyright in RKO's Motion Picture or upon any other of defendants' rights.

9. Universal is entitled to judgment in its favor on the Complaint.

To the extent that any of the Findings of Fact set forth above are deemed to be Conclusions of Law, or to the extent that any of the foregoing Conclusions of Law are deemed to be Findings of Fact, the same shall be deemed Conclusions of Law or Findings of Fact, as the case may be.

RKO'S COUNTERCLAIM—COUNT I

FINDINGS OF FACT

1. Findings of Fact Nos. 1 through 25, inclusive, under the heading "Universal's Complaint," are hereby referred to and are incorporated herein in full by this reference.

2. In or about August, 1975, Universal employed Robert "Bo" Goldman ("Goldman"), a professional screenwriter, to write a screenplay using elements of the Story.

3. After his employment by Universal but before he commenced writing his screenplay, Goldman viewed the Motion Picture. He made a tape recording of the soundtrack thereof on his own initiative, and was not instructed to do so by Universal. Neither Goldman nor Universal published, performed, distributed, disseminated, sold or offered for sale or hearing Goldman's tape recording to the public.

4. Goldman delivered a screenplay written by him to Universal which was revised as of November 21, 1975 (the "Goldman Screenplay").

5. After November 21, 1975, the Goldman Screenplay was further revised for the purpose, among others, of deleting from it all material which is found only in the Motion Picture and not in the Novel or Mystery Magazine Serializations. After November 21, 1975, all such material was deleted from the Goldman Screenplay.

6. The final draft of the Goldman Screenplay does not contain any material or elements which are found only in the

Motion Picture and not in the Novel or Mystery Magazine Serializations.

7. Universal at all times had RKO's consent to produce, sell and distribute a motion picture copying the Motion Picture or any portions thereof, by reason of the following:

(a) On April 15, 1975, Universal, by and through its authorized agent, Arnold Shane ("Shane"), and RKO, by and through its authorized agent, Daniel T. O'Shea ("O'Shea"), entered into a valid oral contract by which Universal acquired an exclusive license from RKO to produce, sell and distribute under the title "King Kong" a remake of the Motion Picture and an option to produce, sell and distribute a sequel thereto and to utilize in such remake and sequel all or any portion of the Motion Picture (the "April 15, 1975 contract"). The terms of said contract are contained in a two-page typed memorandum dated April 15, 1975, entitled "Outline of Deal with RKO GENERAL" (the "Deal Memo") (Exhibit 93) and Universal's standard net profits rider (Exhibit 98), both of which were delivered to O'Shea. Messrs. Shane and O'Shea further agree that the four-year period referred to in paragraphs 4 and 5 of the two-page typed memorandum be reduced to three and one-half years. O'Shea was authorized by RKO to enter into said contract on behalf of RKO.

(b) At all times from 1961 through December 31, 1975, RKO expressly granted to O'Shea, orally and by its conduct, full authority to enter into contracts, oral and written, for the sale and licensing of rights in the Motion Picture and in RKO's other literary properties and motion pictures. At all times from 1961 through December 31, 1975, RKO, by its actions and conduct during said period, caused O'Shea reasonably to believe, and O'Shea at all such times did reasonably believe, that O'Shea had such authority; and at all such times O'Shea had and exercised such authority.

(c) RKO, in its actions and conduct during the period from 1961 through December 31, 1975, caused third parties, including Universal in entering into the April 15, 1975 contract, to rely upon the authority of O'Shea to negotiate and enter into contracts on behalf of RKO for the sale and license of rights in the Motion Picture and RKO's other literary properties and motion pictures. At no time did RKO notify Universal of any limitation upon the authority of O'Shea to enter into such contracts on behalf of RKO; Universal had no knowledge of any such limitation, except that Universal knew that O'Shea consulted with others at RKO before he made such contracts on behalf of RKO.

(d) The aforesaid authority of O'Shea to enter into the aforesaid contracts and the April 15, 1975 contract with Universal was not required to be in writing because O'Shea had and exercised the full, actual, ostensible and apparent authority of RKO at all times from 1961 through December 31, 1975 to enter into such contracts on behalf of RKO.

(e) The April 15, 1975 contract was capable of performance within one year from the date of its making.

(f) On the morning of April 16, 1975, John B. Poor, Chairman of the Board of Directors of RKO, acquiesced in the April 15, 1975 contract and thereby ratified such contract. Shane was aware of Poor's acquiescance on the morning of April 16, and this was known to Poor and O'Shea. On April 16, 1975, in reasonable reliance upon Poor's acquiescance and upon the aforesaid conduct of RKO and O'Shea, Universal employed Hunt Stromberg ("Stromberg") to produce Universal's "King Kong" motion picture and thereby committed itself to pay, and paid, Stromberg a total salary of $62,400 (*i.e.*, $1,200 per week for one year).

8. Universal has not published, exhibited, distributed, disseminated, sold or offered for sale or viewing to the public the Goldman Screenplay or any copies or drafts thereof.

9. Universal has not received any revenues or profits from the Goldman Screenplay or any drafts thereof, or from any of Universal's conduct set forth hereinabove.

10. RKO has not lost any revenue or sustained any damage as a result of the writing of the Goldman Screenplay or any of Universal's conduct set forth hereinabove.

11. Universal filed and prosecuted the Complaint and defended RKO's Counterclaim in the above action in good faith and with the true belief that Universal's conduct as described hereinabove would not infringe RKO's copyright in the Motion Picture.

CONCLUSIONS OF LAW

1. Count I of RKO's Counterclaim is a claim by RKO against Universal for copyright infringement, and arises under the Copyright Act of the United States, Title 17, United States Code. The Court has jurisdiction over Count I of RKO's Counterclaim pursuant to the provisions of Title 28, United States Code, Section 1338(a).

2. Conclusions of Law Nos. 2 through 8, inclusive, under the heading "Universal's Complaint" are hereby referred to and are incorporated herein in full by this reference.

3. Neither the Goldman Screenplay nor any element thereof constitutes an infringement of, and Universal has not infringed upon, RKO's copyright in the Motion Picture.

4. The April 15, 1975 contract is valid and subsisting and constitutes consent by RKO to Universal's conduct as set forth in the foregoing Findings of Fact.

5. The statute of frauds is a defense only. The statute of frauds and equal dignities doctrine do not vitiate the effect of RKO's aforesaid oral consent. To the extent that the statute of

frauds and equal dignities doctrine could legally vitiate RKO's oral consent, RKO is estopped by its conduct and by the conduct of Poor and O'Shea (a) to assert the defense of the statute of frauds and that the April 15, 1975 contract is invalid, voidable or unenforceable because it is not in writing, and (b) to deny O'Shea's authority to enter into said contract on behalf of RKO and to assert the equal dignities doctrine with respect to O'Shea's said authority.

6. RKO is not entitled to an injunction and is not entitled to damages or any other relief against Universal on Count I of RKO's Counterclaim; Universal is entitled to a judgment in its favor on Count I of said Counterclaim.

To the extent that any of the Findings of Fact set forth above are deemed to be Conclusions of Law, or to the extent that any of the foregoing Conclusions of Law are deemed to be Findings of Fact, the same shall be deemed Conclusions of Law or Findings of Fact, as the case may be.

RKO'S COUNTERCLAIM—COUNT II

FINDINGS OF FACT

1. Count II of RKO's Counterclaim is a claim by RKO against Universal for unfair competition and arises out of the same facts (or facts substantially related thereto) which support this Court's jurisdiction over Count I of RKO's Counterclaim.

2. Findings of Fact Nos. 1 through 25, inclusive, under the heading "Universal's Complaint," and Finding of Fact No. 7 under the heading "RKO's Counterclaim—Count I," are hereby referred to and are incorporated herein in full by this reference.

3. RKO has caused the Motion Picture to be distributed and exhibited under RKO's name.

4. During the past 17 years, many literary properties, songs and phonograph record albums have been published and copy-

righted by parties other than RKO in the United States using the name and title "King Kong." The name "King Kong" has also during such period been used by parties other than RKO in various printed cartoons and comic strips in the United States. There is no evidence that any of the aforesaid uses of the name and title "King Kong" were licensed by RKO.

5. There is no evidence that the title "King Kong" has a secondary meaning by which the public identifies such title with RKO or the Motion Picture.

6. The name "King Kong" has become part of the ordinary English language.

7. In November, 1975, Universal caused a press release and trade advertisement to be published in which Universal stated that it intended to produce a motion picture entitled "The Legend of King Kong," based on the novel "King Kong" by Delos W. Lovelace.

8. Universal did not pass off its announced motion picture as being based upon or having any connection with the Motion Picture. Universal did not deceive the public and there is no likelihood that the public was confused, into believing that Universal's announced motion picture was or would be based upon or have any connection with the Motion Picture. Universal did not pass off its announced motion picture or deceive the public, and there is no likelihood that the public was confused into believing that Universal's motion picture was connected with, licensed or sponsored by RKO.

9. By virtue of RKO's consent to Universal's production of its motion picture, Universal also had RKO's express and implied consent to publish the press release and trade advertisement referred to above.

10. Publication of Universal's trade advertisement and press release did not dilute the value of any of RKO's claimed rights in the name, title or character "King Kong," nor did such publication disparage or slander any of RKO's claimed rights in the name, title or character "King Kong."

11. Universal has not received any revenues or profits from the publication of its trade advertisement or press release or from the use by Universal of the name and title "King Kong."

12. RKO has not lost any revenue or sustained any damage as a result of the publication of Universal's trade advertisement or press release or as a result of the use by Universal of the name and title "King Kong."

13. Universal did not publish its trade advertisement or press release or use the name and title "King Kong" with malice toward RKO or with the intent to vex, harass, annoy or injure RKO, or with the intent to oppress RKO or to subject RKO to any hardship in conscious disregard of any rights of RKO.

CONCLUSIONS OF LAW

1. This Court has jurisdiction over Count II of RKO's Counterclaim under the doctrine of pendant jurisdiction.

2. Conclusions of Law Nos. 2 through 8, inclusive, under the heading "Universal's Complaint," and Conclusions of Law Nos. 1, 4 and 5 under the heading "RKO's Counterclaim—Count I," are hereby referred to and are incorporated herein in full by this reference.

3. Universal has not diluted or disparaged the value of the name, title or character "King Kong" and has not diluted or disparaged any claimed rights of RKO herein.

4. Since Universal is free to produce and distribute a motion picture based on the Novel and Mystery Magazine Serializations, it was and is free to entitle said motion picture "King Kong" and to advertise its plans to do so in the manner set forth in Findings of Fact Nos. 7 and 8, under the heading "RKO's Counterclaim—Count II."

5. Universal has not unfairly competed with RKO and has not infringed upon any claimed rights of RKO in the name, title or character "King Kong."

6. Universal did not act with malice or oppression toward RKO in engaging in any of the conduct set forth in Findings of Fact Nos. 7 and 8 under the heading "RKO's Counterclaim—Count II."

7. RKO is not entitled to an injunction and is not entitled to compensatory or punitive damages or any other relief against Universal on Count II of RKO's Counterclaim; Universal is entitled to a judgment in its favor on Count II of RKO's Counterclaim.

To the extent that any of the Findings of Fact set forth above are deemed to be Conclusions of Law, or to the extent that any of the foregoing Conclusions of Law are deemed to be Findings of Fact, the same shall be deemed Conclusions of Law or Findings of Fact, as the case may be.

Dated: November 24, 1976.

/s/ MANUEL L. REAL
United States District Judge

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

UNIVERSAL CITY STUDIOS, INC., a corporation, *Plaintiff/ Counterdefendant, Appellee.* —vs.— RKO GENERAL, INC., a corporation, *Defendant/ Counterclaimant, Appellant,* DINO DELAURENTIIS CORPORATION, a corporation, and RICHARD COOPER, *Defendants.*	NO. 77-1513 DC #75-3526 (MDR) Central California [FILED Oct. 8, 1980] **ORDER**
UNIVERSAL CITY STUDIOS, INC., a corporation, *Plaintiff/ Counterdefendant, Appellee,* —vs.— RICHARD COOPER, *Defendant/ Cross-Complainant, Appellant,* RKO GENERAL, INC., a corporation, DINO DELAURENTIIS CORPORATION, a corporation, *Defendants.*	NO. 77-2212 DC #75-3526 (MDR) Central California

UNIVERSAL CITY STUDIOS, INC., a corporation *Plaintiff/ Counterdefendant, Appellee,* —vs.— RKO GENERAL, INC., a corporation *Defendant/ Counterclaimant, Appellant.*	NO. 78-2929 DC #75-3526 (MDR) Central California
UNIVERSAL CITY STUDIOS, INC., a corporation, *Plaintiff-Appellee,* —vs.— RKO GENERAL, INC., a corporation, *Defendant-Appellant.*	NO. 79-3232 DC #75-3526 (MDR) Central California
UNIVERSAL CITY STUDIOS, INC., a corporation, *Plaintiff,* —vs.— RKO GENERAL, INC., a corporation, DINO DELAURENTIIS CORPORATION, a corporation, and RICHARD COOPER, *Defendants.*	NO. 79-3303 DDC #75-3526 (MDR) Central California

RICHARD COOPER,
Defendant/
Cross-Claimant-
Appellant,

—VS.—

RKO GENERAL, INC.,
a corporation,
Defendant/
Cross-Defendant-
Appellee.

Appeal from the United States District Court
for the Central District of California

Argued and Submitted: January 11, 1980

Before: KENNEDY and ANDERSON, *Circuit Judges*,
and ENRIGHT,* *District Judge*.

The judgments of the district court are vacated, the cases are remanded to the district court, and the appeals are dismissed. The district court should determine which actions are moot by reason of the settlements and stipulations of the parties and

* The Honorable William B. Enright, United States District Judge for the Southern District of California, sitting by designation.

enter dismissals of the actions accordingly. If the district court determines that any parts of the actions still present a case or controversy, it may, after holding such further proceedings as it deems necessary, enter a new and further judgment which would then be the subject for a new appeal if any party who has standing to appeal is aggrieved by the order.

APPEALS DISMISSED AND CASES REMANDED.

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

UNIVERSAL CITY STUDIOS, INC.,

Plaintiff,

—against—

NINTENDO CO. LTD. and
NINTENDO OF AMERICA, INC.,

Defendants.

AFFIDAVIT OF FREDRIC M. SIDEWATER

STATE OF NEW YORK
COUNTY OF NEW YORK } ss.:

FREDRIC M. SIDEWATER, being sworn, deposes and states:

1. I am Vice President of Dino De Laurentiis Corporation ("DDLC"), a position I have held since prior to 1975. I am familiar with the facts concerning DDLC's production and release in December 1976 of the motion picture "KING KONG" a remake of the 1933 RKO classic of the same name, and with the contractual arrangements that were made between DDLC and RKO General, Inc. ("RKO") under which we secured the rights necessary to produce, distribute and commercially exploit the motion picture. I am also familiar with the litigation that was brought by Universal City Studios, Inc. ("Universal") in federal and state court in California in 1975 against RKO and DDLC over Universal's asserted right to produce a "KING KONG" remake and with the settlement of that litigation between Universal and ourselves.

2. In this affidavit I wish to relate the facts relevant to several points which I am advised by counsel for Universal have been raised in papers filed by the defendants in captioned

lawsuit for infringement and unfair competition involving the "KING KONG" trademark.

3. To put DDLC's position in the proper context, I should start with our film. Our 1976 "KING KONG" remake was one of DDLC's major film projects. It took approximately two years for us to make the film (we started in early 1975) and an investment of many millions of dollars. In the seven years that have passed since its release, DDLC's "KING KONG" has been exhibited and shown to millions of people in theaters throughout the country. It has been broadcast several times on network television, exhibited through cable and pay television and is now sold and rented to the public in videocassette and videodisc form. As I say, "KING KONG" was DDLC's major film project of the late 1970's and when it was released on December 17, 1976 by Paramount Pictures Corp. ("Paramount"), whom we had licensed to distribute the film domestically (United States and Canada), it was shown to audiences in approximately 1,000 theaters across the country simultaneously.

4. When we acquired the right to make this motion picture, under an agreement with RKO of August 29, 1975, as supplemented by various letter agreements, we also secured from RKO the right to use and license others to use the name "KING KONG" and the "KING KONG" gorilla character for the sale of all kinds of products and services. We believed at the time that the market for these products could be developed and successfully exploited because of the goodwill and publicity generated by our motion picture. This is precisely what happened, although DDLC did not license the "KING KONG" name for this purpose directly. Instead, we granted the merchandising rights we had earlier acquired (from RKO) to Paramount in the U.S. and Canada (in an agreement among RKO, Paramount and DDLC signed on April 14, 1976, and a separate "Deal Memo" with Paramount of May 20, 1976). The Deal Memo, a copy of which is attached to this affidavit as Exhibit A, recited (¶12) that Paramount would have to secure

RKO's approval of the quality of all merchandise sold under the "KING KONG" name.

5. Our records show that pursuant to those contracts Paramount licensed the "KING KONG" name and gorilla character to several dozen companies who used it to advertise and sell all kinds of products ranging from toys, games and dolls, and promotional items tied in with our "KING KONG" movie, to clothing and household goods. This was all in the period prior to and immediately following the release of our "KING KONG" motion picture and continuing through late 1979.

6. While the agreements pursuant to which the licenses issued by Paramount were being worked out among RKO, DDLC and Paramount, DDLC found itself involved as a defendant in two lawsuits filed by Universal Studios, one brought in California state court in May 1975 and the other in federal district court in Los Angeles in October 1975. In the broadest sense both cases related to the same matter, i.e., Universal's claim of rights to make a "KING KONG" motion picture of its own, and in both our co-defendant was RKO. To simplify what would otherwise require a complicated narrative about this litigation, I would summarize it from DDLC's perspective as follows: Well before the trial of Universal's federal declaratory judgment claim (the one that sought a determination that the story "KING KONG" was no longer protected by copyright) and DDLC's federal counterclaim (for unfair competition over Universal's then planned use of the "KING KONG" name), we settled both actions with Universal. This was on January 23, 1976, some eight months before Universal's claims against RKO in that suit were tried.

7. I make a point of this because I understand from Universal's counsel that Nintendo has argued in its motion papers that Universal "defeated" DDLC's counterclaim for unfair competition and infringement over the KING KONG trademark in the federal action. Obviously this statement is wrong. Our counterclaim against Universal was voluntarily dismissed

as a result of our settlement agreement in January 1976 and was never tried.

8. Next, I wish to state that vis-a-vis DDLC's position Universal is fully entitled to exploit the goodwill that was (and is still being) generated by DDLC's successful 1976 "KING KONG" motion picture for the "KING KONG" name and "KING KONG" mechanical gorilla. As I said earlier, our merchandising rights, by which I mean the right DDLC once had to use the "KING KONG" name and "KING KONG" gorilla character in the promotion and sale of goods and services, expired in late 1979, pursuant to the terms of our agreement with RKO. DDLC, of course, owns the copyright in the 1976 "KING KONG" motion picture and that stands on an altogether different footing. As the copyright proprietor of the 1976 movie, DDLC continues to own all of the rights to exhibit and license the sale and exhibition of the picture provided by the copyright laws. But I do wish to be clear: we do not license our picture or footage or still photographs from the picture to anyone for use in the sale of "KING KONG" products or services.

9. I might add that, during the period when DDLC was an RKO licensee and was authorized to use the "KING KONG" name and gorilla character for merchandising purposes, we were very concerned about the unauthorized use of the "KING KONG" name and gorilla character by others who did not have proper licenses from Paramount. When infringing uses of the "KING KONG" name and character came to our attention, we wrote letters demanding that the infringements stop. In one instance I recall that we joined with Paramount in a lawsuit in federal court in New York to stop a company from advertising a motion picture called "APE" through advertising material which used the "KING KONG" name and gorilla character without our consent. We were successful in that litigation, and I refer to it here simply to show that DDLC did police the "KING KONG" trademark when it was an authorized RKO licensee. In the same connection, I would note that

a company called Fun Games, Inc. once wrote us advising of its plans to produce a video game which would have portrayed a giant ape on top of the Empire State Building swatting at airplanes. When we learned of this, our attorneys wrote to the company (see Exhibit B) pointing out that we considered their proposal a clear infringement of our "KING KONG" rights and that was the end of the matter.

11. To the extent DDLC still receives inquiries from companies interested in obtaining a license to use the "KING KONG" name for merchandising purposes, we routinely turn these inquiries over to Universal. A good recent example is the inquiry we received in August 1982 from a company called National Electronics & Watch Co. Ltd. which asked about the possiblity of entering into a licensing agreement whereby the "KING KONG" name could be used in connection with the advertising and sale of wrist game watches. We passed that inquiry on to Universal and it is my understanding that Universal subsequently signed an agreement with the company licensing "KING KONG" for those products.

/s/ FREDRIC M. SIDEWATER
Fredric M. Sidewater

Sworn to before me this
7th day of July, 1983

/s/ AMY CHASE
Notary Public

[SEAL]

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

82 Civ. 4259 (RWS)

UNIVERSAL CITY STUDIOS, INC.,

Plaintiff,

—against—

NINTENDO CO. LTD. and NINTENDO OF AMERICA, INC.,

Defendants.

AFFIDAVIT OF RICHARD ZIMBERT

STATE OF CALIFORNIA
COUNTY OF LOS ANGELES } ss.:

RICHARD ZIMBERT, being duly sworn, deposes and states:

1. I am Senior Vice President and General Counsel of Paramount Pictures Corporation (hereinafter "Paramount"), a position I have held for 1 year. I have been with Paramount for over 8 years and before becoming General Counsel served as Senior Vice President and assistant to the President of Paramount Pictures Corporation and in other executive business affairs and legal capacities. I am familiar with the fact that Paramount was distributor (in the United States and Canada) of the motion picture "KING KONG," produced by Dino De Laurentiis Corp., which was a "remake" version of the original "KING KONG" motion picture. I can also attest to the fact that between 1976 and December 1979 Paramount actively promoted and used the King Kong name and King Kong gorilla character to commercially exploit the merchandis-

ing rights it had been granted (by RKO General, Inc. and Dino De Laurentiis Corp.) in conjunction with its domestic distribution rights for the film. In this affidavit I will briefly describe Paramount's role in this commercial exploitation of "KING KONG" in the late 1970's based on (a) data and information derived from Paramount's business and legal records and (b) my own knowledge of the contractual arrangements between Paramount and Dino De Laurentiis Corp. and RKO General, Inc. through which Paramount derived the rights which led to its King Kong projects.

Background

2. In late 1974 when Dino De Laurentiis Corp. was in the very early stage of developing the project that subsequently resulted in the production of its "remake" version of "KING KONG," it and Paramount established that Paramount would be involved with that project. Dino De Laurentiis Corp. and Paramount negotiated and agreed upon the terms of Paramount's involvement and in May 1976 Paramount signed an agreement with Dino De Laurentiis Corp. dated May 20, 1976 formally consummating the arrangement. A copy of that contract, which was made effective as of February 1976, is annexed hereto as Exhibit A.

3. Shortly before we signed the foregoing distribution agreement, we also signed an agreement with Dino De Laurentiis Corp. and RKO General, Inc. under which we were granted exclusive "merchandising rights" in the name and character King Kong. This agreement (annexed as Exhibit B) gave us the right to commercially exploit the King Kong trademarks, i.e., the name King Kong and the gorilla character King Kong either by (a) using these trademarks ourselves or (b) licensing others to use them for various products and services, sales of which we believed would be stimulated by the goodwill generated by a successful motion picture. I should mention in passing that the rights we acquired from Dino De Laurentiis Corp., both to distribute the film and exploit the merchandising rights, were

derivative. By this I simply mean that Dino De Laurentiis Corp. had acquired its right to produce the "KING KONG" remake and exploit the King Kong trademarks through merchandising from RKO General, Inc., producer of the original "KING KONG" film released in 1933.

Paramount's Role in the Advertising, Promotion and Distribution of the "KING KONG" Remake

4. Based on the records maintained by Paramount that I have reviewed in conjunction with making this affidavit, I can attest to the fact that Paramount began its advertising and promotional campaign for "KING KONG" in late 1975, almost a year before the picture was actually released. The most significant aspect of this "pre-release" promotional activity took the form of a full-page advertisement we ran in *The New York Times*, *New York Magazine* and *The Los Angeles Times*, the combined circulation of which is obviously in excess of one million, in approximately November 1975. This was for a poster that showed King Kong standing on top of the twin towers of the World Trade Center building holding a woman in his left hand while fighting off an airplane attack. A photographic reduction of that poster is annexed hereto as Exhibit C, and in bold type it announces:

There is still only one *KING KONG*.

One Year from today Paramount Pictures and Dino De Laurentiis will bring to you the most exciting original motion picture of all time

KING KONG

5. Our records indicate that the response to our pre-release publicity for the film was enormous. Paramount received over 40,000 letters from people requesting the poster, which the ad said would be furnished free to anyone who asked for it. Paramount's advertising and promotional expenditures for the 1976 "KING KONG" release were, of course, substantial. Our records show that in the period beginning in 1976 in which the picture was being actively promoted and exhibited in theaters

in the United States, Paramount spent over $7 million to make the public aware of the film and induce people to see it. Our advertising campaign heavily emphasized the picture of King Kong on top of the twin towers as shown in Exhibit C.

6. Since its release on December 17, 1976, our "KING KONG" remake has been exhibited in over 11,748 theaters in the United States and Canada and has generated receipts to Paramount of $35 million. "KING KONG" was the major Paramount Christmas release for the year 1976 and opened in approximately 1,000 theaters in the United States and Canada. Between December 1976 and December 1982, we estimate that 25,821,596 million persons* have seen the film in motion picture theaters and, of course, this audience has been expanded in more recent years by virtue of the fact that the film has been shown on network television** and exhibited through the medium of pay television (including cable and subscription TV) and is now available for purchase or rental by the public in videocassette and videodisc form.

Paramount's King Kong Merchandising Activities

7. As I said earlier, Paramount was also granted the rights by Dino De Laurentiis Corp. and RKO General, Inc. to use the King Kong name and character as a trademark in conjunction with the advertising, licensing and sale of King Kong products and services. These are denoted as the "merchandising rights" in the agreement between Paramount and Dino De Laurentiis Corp. of May 20, 1976 and the actual grant of them to Paramount is covered by a separate agreement of April 14, 1976 (Exhibit B). During the period we were authorized to exploit these rights, which roughly corresponded with the release of "KING KONG" and ran through December 1979, Paramount entered into licenses with over 30 different compa-

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* The average ticket price was $2.13.

** The film was shown on television as a two-day special on September 16-17, 1978; May 8-9, 1980 as well as on November 13, 1980 and March 27, 1983.

nies in which we authorized the use of the King Kong name and character as trademarks for the advertising and sale of such products as games, toys, articles of apparel, film cartridges, ceramics, school supplies, wrist watches and dolls. Our Merchandising and Licensing Department has prepared a list of the companies which we licensed to advertise and sell these products under the King Kong trademark and this list, which is annexed hereto as Exhibit D, gives the dates during which each of these licenses was in effect.* I would add that, consistent with our obligation to Dino De Laurentiis Corp. and RKO General, Inc. under these two contracts, Paramount secured RKO's approval of these licenses and exercised control over the quality of the articles of merchandise actually produced and sold under them.

8. When these agreements expired, which in most cases occurred in the period between 1977 and the end of 1978, it is our understanding that all merchandising rights in the King Kong name and gorilla character reverted to Universal. I say "reverted" to Universal because I understand that Universal had by that time acquired the rights in the King Kong name and character that had previously been held and licensed to use (through Dino De Laurentiis Corp.) by RKO General, Inc. Our agreement of April 14, 1976 with RKO and Dino De Laurentiis Corp. (Exhibit B) explicitly provided for this in ¶ 7(b):

> (b) Unless otherwise agreed to in writing by RKO, immediately following the expiration of the aforesaid period provided in the Picture Agreements, all Merchandising Rights shall revert to RKO who shall be free to license others in connection with such rights.

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* Paramount also entered into licensing agreements with several companies authorizing the use of the King Kong name and gorilla character for the promotion and sale of products "tied-in" with Paramount's release of the "KING KONG" motion picture. These arrangements are separate and apart from those listed on Exhibit D.

Paramount certainly accepted that when its own rights to use the King Kong name as a trademark expired by the terms of its agreements with Dino De Laurentiis Corp. and RKO General, Inc. any goodwill directly related to Paramount's King Kong merchandising projects was to inure to the benefit of RKO or whomever lawfully succeeded RKO. I say that I "understand" that this turned out to be Universal because I am generally familiar with the circumstances by which Universal acquired these rights as a result of its lawsuit against RKO General, Inc. in federal court here in California in the mid-1970's and also because one of the consequences of that litigation was that Universal became entitled to additional shares in the royalties generated by Paramount's distribution of the "KING KONG" motion picture and licensing of King Kong merchandise.

9. Finally, I would add that when Paramount's rights to license the King Kong name and gorilla character for the sale of goods and services expired in 1980 we understood and accepted that Universal would be entitled to the goodwill that Paramount had generated in and for the merchandising of products using the King Kong name and character. We acknowledged Universal's right to in effect succeed Paramount as the licensing source for products and services sold under the King Kong name and character in November 1980 and I am annexing a copy of our letter to Universal embodying that acknowledgment as Exhibit E.

/s/ RICHARD ZIMBERT
Richard Zimbert

Sworn to before me this
11th day of July, 1983

/s/ KATHRYN G. BROWN
Notary Public

[SEAL]

ASSIGNMENT OF CAUSES OF ACTION

For valuable consideration, RKO General, Inc. ("RKO") hereby transfers and assigns to Universal City Studios, Inc. ("Universal") all of its rights, title, and interest in and to any and all causes of action for violation of United States Trademark Laws and Unfair Competition against Nintendo Co., Ltd. and Nintendo Corporation of America, Inc. ("Nintendo") and all others acting for, or in concert with, Nintendo, arising out of or connected with Nintendo's unlawful use of the "King Kong" name, character and story in violation of RKO's and Universal's rights, with full right to maintain an action thereon and to settle, compromise, or reassign such causes of action and to give a release in its name in full discharge of the liability thereunder.

Dated this 15th day of June, 1982.

RKO GENERAL, INC.

By /s/ ARNOLD KAUFMAN
Its Vice President

[Plaintiff's Exhibit 55]

STATUTES

1. Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a)

When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office shall have been established in any civil action arising under this Act, the plaintiff shall be entitled, subject to the provisions of sections 29 and 32 and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.

2. Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a)

Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the

same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or in the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any such false description or representation.

3. Section 45 of the Lanham Act, 15 U.S.C. § 1127 (definition of "trademark")

The term "trademark" includes any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify and distinguish his goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.

4. Fee Provision in Patent Laws, 35 U.S.C. § 285

The court in exceptional cases may award reasonable attorney fees to the prevailing party.

(3)

Supreme Court, U.S.
FILED
NOV 10 1986
JOSEPH F. SPANIOL, JR.
CLERK

No. 86-590

IN THE

Supreme Court of the United States

OCTOBER TERM, 1986

UNIVERSAL CITY STUDIOS, INC.,

Petitioner,

—against—

NINTENDO CO., LTD. AND NINTENDO OF AMERICA INC.,

Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES
COURT OF APPEALS FOR THE SECOND CIRCUIT

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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Counsel for Respondents
Nintendo Co., Ltd. and
Nintendo of America Inc.

COUNTER-STATEMENT OF QUESTIONS PRESENTED

In entering judgment on respondents' counterclaims for tortious interference with contract under state law, the district court made extensive findings of fact concerning petitioner's willfully tortious conduct. This conduct included a systematic program of falsely claiming to respondents' licensees that their licensed products infringed on sweeping rights in King Kong claimed by petitioner. Petitioner's program was successful to the extent that several of these licensees breached their contracts with respondents. Petitioner had explicitly concluded before embarking on this program that it did not have the rights which it asserted to respondent Nintendo and its licensees.

As well as awarding respondents compensatory damages for petitioner's tortious interference with contract, the district court awarded an amount equal to a portion of the actual attorney's fees expended by respondents in defending against petitioner's infringement allegations. The district court cited as alternative bases for this additional award: 1) state common law granting discretion to award exemplary damages for petitioner's willful tort; 2) section 35 of the Lanham Act, 15 U.S.C. § 1117, granting discretion to award fees in "exceptional cases", and 3) Rule 11 of the Federal Rules of Civil Procedure.

The Court of Appeals for the Second Circuit unanimously held that the lower court's findings of willful tortious interference were amply supported by the record. In affirming the award equal to respondents' attorney's fees, the Court of Appeals held that the district court did not abuse its discretion in awarding these fees in this "exceptional case" under the Lanham Act. It did not reach the district court's two alternative bases for the award.

In view of the factual record of this case and the broad legal bases for the judgment below, the questions sought to be presented by petitioner should be restated:

1. Whether it was an abuse of discretion, after finding that petitioner acted in bad faith by asserting rights in this lawsuit it knew it did not have and

by willfully interfering with respondents' contractual licensees, to award an amount equal to a portion of respondents' actual attorney's fees as alternatively: 1) exemplary damages under state law; 2) under section 35 of the Lanham Act; and 3) pursuant to Rule 11 of the Federal Rules of Civil Procedure.

2. Whether it was error for the Court of Appeals to affirm the district court's judgment for the tort of contractual interference without explicitly citing in its opinion an inapposite state case and theory advanced by petitioner for the first time on appeal concerning the limitations under state law of the different tort of malicious prosecution.

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IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1986

No. 86–590

UNIVERSAL CITY STUDIOS, INC.,

Petitioner,

–against–

NINTENDO CO., LTD. AND NINTENDO OF AMERICA INC.,

Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

Respondents, Nintendo Co., Ltd. and Nintendo of America Inc. (collectively "Nintendo"),[1] submit this Brief in Opposition to the Petition for a Writ of Certiorari to the

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1. Pursuant to Rule 28.1 of this Court's rules, respondents state that Nintendo of America Inc. is a wholly–owned subsidiary of Nintendo Co., Ltd. and that there are no other affiliates or subsidiaries, other than wholly–owned subsidiaries, of either of the respondents.

United States Court of Appeals for the Second Circuit of petitioner, Universal City Studios, Inc. ("Universal").

COUNTER-STATEMENT OF THE CASE

Universal's statement of the case repeatedly ignores the record evidence and misstates the opinions of the district court and the Court of Appeals for the Second Circuit. This Court is respectfully referred to the opinions below for an accurate statement of the case. The district court's opinion is reproduced at A65. The Court of Appeal's opinion is reproduced at A1. Following the affirmance by the Court of Appeals, Universal did not seek a rehearing or a stay of execution of the judgment. After the mandate issued from the Court of Appeals, Universal satisfied the entire judgment.

REASONS TO DENY THE WRIT

In seeking this writ, Universal ignores or misstates the district court's factual findings based on a full trial. Although the district court and the Court of Appeals did not use the word frivolous to define Universal's claims and actions in this litigation, they found something far worse — that Universal instituted this lawsuit and threatened Nintendo's licensees with litigation in subjective bad faith. The district court further found that it did not believe the testimony of Universal's executives who at trial attempted to counter the direct evidence of bad faith. In order to review any of the issues which Universal advances as reasons for granting the writ, this Court would have to find that the district court's detailed and considered findings of fact were clearly erroneous. This fact–bound litigation is inappropriate for review by this Court.

In its first and second questions Universal asks this Court to review the lower court's award of an amount equal to respondent's attorney's fees in defending against Universal's bad faith lawsuit. It ignores the fact that this award was granted on an extensive record developed in a full trial and was awarded on alternative legal grounds as: 1) exemplary damages under state law; 2) Rule 11 of the Federal Rules of

Civil Procedure; and 3) an award of fees based on section 35 of the Lanham Act. Universal would have this Court carve out the Lanham Act basis of the award for review without reference to the factual record on which the district court exercised its discretion to make its award or the other two alternative legal bases of decision.

Although the Court of Appeals found it unnecessary to reach the district court's alternative legal bases under Rule 11 and state law, its affirmance of the district court's judgment is equally appropriate on these alternative legal grounds which would sustain the judgment in this Court. A writ of certiorari would bring before this Court, therefore, not only the facts found and affirmed by the lower courts on an extensive record, but also the district court's exercise of discretion under state law and Fed. R. Civ. P. 11, as well as the Lanham Act. *See Thigpen v. Roberts*, 468 U.S. 27, 30 (1984) ("[W]e may affirm on any ground that the law and the record permit and that will not expand the relief granted below."); *Washington v. Yakima Indian Nation*, 439 U.S. 463, 476 n.20 (1979) (prevailing party may "defend his judgment on any ground properly raised below whether or not that ground was relied upon, rejected or even considered by the District Court or Court of Appeals").

Under the facts and circumstances of this case, the district court's exercise of discretion and the unanimous affirmance of the Court of Appeals were well founded on all three bases of decision. Where there are independent bases for decision, Universal's attempt to raise Lanham Act issues in its first and second questions, which need never be reached to affirm the judgment below, is inappropriate. *See The Monrosa v. Carbon Black Export, Inc.*, 359 U.S. 180, 184 (1959) ("While this Court decides questions of public importance, it decides them in the context of meaningful litigation").

Universal's third question presented, concerning the lower courts' interpretations of state law, is equally without merit and undeserving of this Court's attention. As best it can be

understood, Universal seeks to have this Court consider establishing a novel principle as the state law of New York, or, in the alternative, to consider whether a Court of Appeals must cite in its opinion affirming a district court's decision under state law each and every case and argument advanced by an appellant no matter how frivolous.

A. THE SUBJECTIVE BAD FAITH FOUND BY THE DISTRICT JUDGE MAKES THIS CASE INAPPROPRIATE FOR REVIEW BY THIS COURT

In its petition, Universal largely fails to address the factual findings of the district court.[2] The damages and fees awarded to Nintendo did not, as Universal claims, arise out of "collateral sanctions litigation" (Univ. Pet. at 2–3, 14–16); rather, they arose from a judgment for Nintendo after a full bench trial on its counterclaim for tortious interference with licensing contracts. Universal argues that the lower courts impermissibly held for Nintendo without finding the litigation "frivolous or without foundation." In fact, the district court found that Universal was in subjective bad faith when it instituted this lawsuit against Nintendo and threatened Nintendo's licensees with litigation causing many of them to breach their contracts. A107–09, 112. The record, thoughtfully analyzed by the district judge, fully supported this finding.

The evidence demonstrated that barely two weeks before Universal began its assault on Nintendo's licensees, claiming

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2. Universal's petition also fails to call to this Court's attention two important opinions of the district court. In a memorandum opinion dated September 16, 1985, the district court resolved Universal's objections to a proposed judgment submitted by Nintendo. This opinion is reproduced in Nintendo's appendix at A180. The district court also rendered an opinion on November 24, 1985, denying Universal's request for a new trial or alternatively for a hearing pursuant to Rule 11 of the Federal Rules of Civil Procedure. This opinion is reproduced in Nintendo's appendix at A183. As set forth below, each of these omitted opinions further weaken the petition.

sweeping rights in King Kong, it had explicitly concluded in consultation with its licensing and legal departments that it had **no** rights in King Kong to license. A75–76. Documents produced from Universal's own files corroborated the fact that Universal always knew that any rights it might claim in King Kong were drastically limited. A86, 107–09. Nevertheless, in order to make its claim appear credible, Universal asserted in its threats to Nintendo's licensees and in its complaint in this action that it was the exclusive owner of virtually all rights in King Kong. Despite this false claim of sweeping rights, Universal could never tell the district court or Nintendo and its licensees "exactly what shred of the King Kong property it owned." A107. The lower courts found that Universal in bad faith asserted rights in King Kong which it knew it did not have. A8–9, 13, 107–09, 112.

In an attempt to rebut this "wide array" of direct evidence of its subjective bad faith (A11), key Universal executives, including its president, testified at the trial on Nintendo's counterclaims. The district court, after hearing these witnesses — all of whom are lawyers — and judging their credibility, did not believe their explanations as to their beliefs concerning Universal's rights in King Kong and their motives in bringing this lawsuit and threatening Nintendo's licensees. A76, 78. The district court concluded that Universal had tortiously interfered with Nintendo's licensees "in order to join in the profits from Donkey Kong rather than to vindicate a legitimate claim to a trademark." A107. The district court's findings of subjective bad faith were affirmed by a unanimous panel of the Court of Appeals for the Second Circuit. A9, 12.

Universal makes no effort to rebut the factual record of its subjective bad faith in this petition. It asserts instead that it should not have been held liable because its alleged acquisition of rights from the *RKO* lawsuit was a fair ground for litigation and because it claimed to have received advice of counsel before commencing the lawsuit. Univ. Pet. at 2, 23–24. Both

of these arguments were rejected by the lower courts as unsupported by the facts.

Universal presents a distorted version of the 1976 *RKO* litigation which involved the ownership of rights in King Kong. It claims that the Cooper Judgment vested "all rights" to King Kong in Richard Cooper and that this judgment, when assigned to Universal, gave it all rights to King Kong, including trademark rights. Univ. Pet. at 5–7. In fact, Universal initiated the *RKO* litigation seeking a declaration that it could produce a King Kong motion picture remake free from any claim of exclusive rights by RKO. In the California federal district court, Universal succeeded in obtaining a judicial declaration that the King Kong story was in the public domain, and that King Kong could not be a trademark because there was no evidence of secondary meaning and because it had become part of the ordinary English language. A3–4.[3] Hence, the court made clear that the Cooper Judgment, which was entered concurrently with the judgment for Universal that King Kong could not be a trademark, did not affect the Universal judgment and therefore did not create trademark rights that could be enforced against the world. A3–5.

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3. The *RKO* litigation was settled years later while on appeal and Universal's declaratory judgment was vacated on stipulation. However, as the Court of Appeals below held:

> The fact that the parties in the RKO suit subsequently settled their dispute and vacated the district court's judgment does not alter the underlying fact that Universal's contention of law was approved by a federal court. The holding in the case involves not an application of judicial estoppel, which would completely bar a party from arguing an inconsistent position in subsequent litigation . . . , but only an inference as to the parties belief in the merits of its subsequent lawsuit.

A9, n.3.

Despite the undisputed history and context of the Cooper Judgment, Universal tries to tell this Court that the California federal court intended to vest trademark rights by the Cooper Judgment and that the decisions of the lower courts here "had the net effect of rendering the core provisions of the prior federal court judgment a nullity." Univ. Pet. at 4. The district court and the Court of Appeals below were not fooled by this aberrant analysis. Since all of the judgments in the *RKO* litigation were premised on and subordinate to Universal's victory in establishing that no such rights existed, the Court of Appeals after a careful analysis of the *RKO* record, held "[i]t is clear . . . that Cooper did not hold any trademark rights against the world in King Kong. Any such rights that might exist would be solely against RKO." A5.

Similarly, Universal's attempted reliance on the advice of counsel defense is not supported by the record and was correctly found not to have been established by both the district court and the Court of Appeals. In order to establish such a defense, Universal would have had to prove that it "relied in good faith after first making full disclosure of facts that are relevant to the advice." *United States v. Eisenstein*, 731 F.2d 1540, 1543–44 (11th Cir. 1984). *See also Draney v. Wilson, Morton, Assaf & McElligott*, 592 F. Supp. 9, 11 (D. Ariz. 1984). Universal did not call Stephen Kroft, the attorney on whom it purported to rely, as a witness at trial. A11, 78.[4] Rather, it chose to attempt to establish the defense through the

4. This is not surprising, since Mr. Kroft was the same attorney who had handled the *RKO* litigation for Universal where he had proved that King Kong could not be a trademark for anyone. As stated by the Second Circuit, "[i]ndeed, it would have been interesting to hear [Kroft] explain the consistency of any advice to Universal that it had trademark rights with his statements to the California district court on this point." A11.

hearsay testimony of Robert Hadl, the head of Universal's litigation department. A187.[5] Mr. Hadl testified that he asked Mr. Kroft to play Donkey Kong and that Mr. Kroft subsequently reported back that he had played the game and thought Universal had a claim. A77.

As found by the district court, "Hadl and Kroft did not discuss Universal's rights in King Kong or King Kong merchandising . . . . There was no amplification or justification of Kroft's alleged statement that Universal had a claim or any analysis of the merits of the professed claim." A77–78. The district court found that Mr. Hadl's testimony utterly failed to establish the required elements of the advice of counsel defense and concluded that "[t]he totality of the circumstances here show that whatever advice of counsel Universal received, it was insufficient to identify a cognizable right approaching that asserted in the complaint. . . ." A108.[6]

Universal would have this Court review certain of the legal conclusions of the lower courts in a vacuum. However, the district court's factual findings as to the subjective bad faith of Universal in instituting this lawsuit and threatening Nintendo's licensees were the foundation for the court's conclusions of law and award of damages and attorney's fees

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5. Subsequent to the district court's opinion rejecting Universal's advice of counsel defense, Universal belatedly sought to introduce Mr. Kroft's testimony concerning his advice by way of an affidavit submitted in connection with a motion for new trial. In denying that motion, the district judge, who had previously found, after considering all the record evidence, that Mr. Hadl's hearsay testimony was insufficient to establish the defense, analyzed Mr. Kroft's affidavit and concluded that "the Kroft affidavit, taken at face value, does not establish by itself that a different result would have obtained" had Kroft testified at trial." A189.

6. In addition, because of Mr. Kroft's continuing association with Universal and his close involvement in the *RKO* litigation, the district court inferred from his absence that his testimony would have been unfavorable to Universal. A78. The Second Circuit found that the district court was fully justified in drawing this adverse inference. A11.

to Nintendo. Review of any of the legal issues raised by Universal's petition would require this Court to re–examine the extensive record, conduct a full review of the facts found by the district court and, before granting any relief, conclude initially that the district court's detailed findings of fact are so clearly erroneous that this Court " 'is left with the definite and firm conviction that a mistake has been committed.' " *Anderson v. City of Bessemer*, _____ U.S. _____, 105 S.Ct. 1504, 1511 (1985)(quoting *United States v. United States Gypsum Co.*, 333 U.S. 364, 395 (1948)). This fact–bound litigation, replete with findings of subjective bad faith and improper conduct by Universal, does not clearly present the issues raised by Universal and is a most inappropriate context within which to instruct the lower federal courts to halt the "proliferation of unjustified 'sanctions' claims." Univ. Pet. at 23.

B. EVEN IF THE LANHAM ACT WERE THE SOLE BASIS OF DECISION BELOW, UNIVERSAL'S PETITION WOULD IMPROPERLY REQUIRE THIS COURT TO REVIEW THE EXTENSIVE FACTUAL RECORD ON WHICH THE LANHAM ACT ISSUES WERE CORRECTLY DECIDED.

1. *The Court Below Found The Lawsuit Was Brought In Willful Bad Faith And That This Case Was Therefore "Exceptional" Within The Meaning Of The Lanham Act*

In its attempt to put this case before this Court, Universal focuses on only one of the three grounds which support the award below and argues that the lower courts did not make the requisite findings to support the conclusion that this case was "exceptional" under Section 35 of the Lanham Act (15 U.S.C. § 1117) so as to justify an award of attorney's fees. Thus, Universal argues that there were no findings that its claims were "unfounded" or "frivolous"; hence, it was an abuse of discretion to find this case to be "exceptional". Univ.

Pet. at 18–21.[7] This argument is nonsensical in view of the record below.

This was not a case where there was an assertion of questionable rights which was later found to be objectively frivolous. There was direct evidence of Universal's subjective bad faith in asserting rights it knew it did not have. A8–9, 13, 107–09, 112. Universal falsely claimed to own *all* trademark rights in King Kong at the outset of this litigation but was then unable to delineate what this trademark consisted of during more than three years of litigation while it pursued Nintendo's licensees. A6, 79, 84–85, 107. Further, Universal's witnesses testified unbelievably in an attempt to cover up Universal's scheme to use this litigation not to vindicate a legitimate claim of right in King Kong, but to profit from the property of another. A9–10, 76, 78, 112–13. The Court of Appeals unanimously found these findings to be fully supported by the record. A8–9. By any reasonable construction of Section 35, this was an "exceptional" case where the claims asserted were not only frivolous, but outright falsehoods.

Universal cites *Noxell Corp. v. Firehouse No. 1 Bar-B-Que Restaurant*, 771 F.2d 521 (D.C. Cir.), *rehearing en banc denied*, 774 F.2d 1180 (1985) and suggests that the decisions

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7. Universal's request that this Court announce a rule requiring a finding that a litigant's claims be "frivolous" or "unfounded" stands in sharp contrast to Universal's argument to the district court. In its Supplemental Trial Brief Universal stated:

> To make out a claim of bad faith litigation for purposes of recovering attorney's fees under 15 U.S.C. § 1117, Nintendo has to prove that Universal commenced and maintained this litigation other than to vindicate a legal right in King Kong.

After trial, the district court found that Nintendo had proved precisely what Universal itself acknowledged was required for an award of Lanham Act attorney's fees — that Universal had commenced and maintained this litigation in bad faith to serve ulterior business motives. A112.

of the district court and Court of Appeals below are in conflict with *Noxell* in that the *Noxell* court awarded "Section 35 fees to a Lanham Act defendant only after a painstaking analysis demonstrating that the plaintiff had disregarded controlling precedent from this Court . . . ." Univ. Pet. at 19. In fact, the circumstances of this case where Universal was found after a full trial to have acted in outright bad faith are far more extreme than those presented in *Noxell*, where the court in reviewing a motion to dismiss for improper venue, held:

> Congress did not intend rigidly to limit recovery of fees by a defendant to the rare case in which a court finds that the plaintiff "acted in bad faith, vexatiously, wantonly, or for oppressive reasons" . . . . Something less than "bad faith," we believe, suffices to mark a case as exceptional.
>
> * * *
>
> We find in this case more than a hint of "economic coercion" . . . in Noxell's choice of a distant forum and in its mode of proceeding . . . . We think it altogether "exceptional" . . . for Noxell to launch litigation . . . at a place far removed from California when a Supreme Court decision precisely in point . . . plainly declared the impropriety of that course.

771 F.2d at 526–27.

The *Noxell* court recognized not only that attorney's fees are recoverable under Section 35 of the Lanham Act when bad faith is shown, but also that in certain instances a recovery is permissible even if bad faith has not been proven. In this case, Universal's bad faith motives were laid bare by direct evidence educed in a full trial. The award of attorney's fees

not only does not conflict with the decision in *Noxell*, but *Noxell* stands for the proposition in this case *a fortiori*.[8]

Ultimately, Universal's petition would require a review of the factual record on which the district court found this case to be "exceptional". In view of the overwhelming factual record of Universal's bad faith and considering this Court's admonitions that due deference be given to a district court's findings of fact and credibility, the Court of Appeals unanimously affirmed the district court's findings of willful bad faith. A8–9. Universal's attempt to seek further review in this Court of these factual findings which the Court of Appeals found to be firmly grounded in the trial record is wholly inappropriate. *United States v. Johnston*, 268 U.S. 220, 227 (1925) ("We do not grant a certiorari to review evidence and discuss specific facts"), *cited with approval in Texas v. Mead*, 465 U.S. 1041, 1043 (1984).

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8. Similarly, Universal's attempt to create some reviewable issue by relying on decisions involving the Patent Act fails. In both cases cited by Universal, the courts recognized that proof of bad faith would render a case "exceptional" for purposes of 35 U.S.C. § 285. *See Stevenson v. Sears, Roebuck & Co.*, 713 F.2d 705, 713 (Fed.Cir. 1983) (The Federal Circuit, construing Section 285 of the Patent Act, stated: "a patentee should not be automatically penalized for pursuing an infringement action after a determination of invalidity in another suit. There must be some finding of unfairness, bad faith or inequitable conduct on the part of the unsuccessful patentee . . . . The trial judge made no finding that any of these exceptional circumstances were present here . . . .") (citations omitted); *Arbrook Inc. v. American Hospital Supply Corp.*, 645 F.2d 273, 279 (5th Cir. 1981) (The Court of Appeals stated that fee awards under Section 285 are proper "when the plaintiff had acquired his patent by fraud or brings an infringement suit with no good faith belief that his patent is valid and infringed.") Moreover, Universal's attempt to imply that its conduct does not fall within the language of *Blau Plumbing, Inc. v. S.O.S. Fix-It, Inc.*, 781 F.2d 604, 612 (7th Cir. 1986)(frivolousness or "even a more demanding standard" is necessary for a fee award pursuant to Section 35 of the Lanham Act)(Univ. Pet. at 20, n.18) is absurd in view of the overwhelming proof of its subjective bad faith.

2. *No Authority of This or Any Other Court Justifies Further Review Of The Amount Of The Award.*

Universal also seeks to have this Court review the extensive factual record to determine independently whether the amount awarded Nintendo as a result of Universal's conduct was justified. Attempting to present a reviewable issue, Universal argues that the lower courts made no finding that the award under Section 35 of the Lanham Act was reasonable. Univ. Pet. at 21–22.[9] In advancing its argument, Universal again ignores the findings below which support the Lanham Act award and the two alternative and independent grounds on which the district court relied in granting the award.

Universal thus does not challenge the reasonableness of the alternative award of exemplary damages for Universal's tortious conduct under state law — conduct which consisted of a systematic assault on Nintendo's licensing program leading many of Nintendo's licensees to breach their agreements. This alternative award of exemplary damages was in an amount equal to Nintendo's attorney's fees, and was explicitly found, as required under state law, to bear a reasonable relationship both to the harm inflicted and the flagrancy of Universal's conduct. A110. Although the appellate court did not reach this ground, the amount of the award is fully

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9. Although before this Court Universal attempts to attach great significance to this alleged error, it is apparent that Universal did not give much weight to this argument in the lower courts. Universal did not challenge the reasonableness of the fees claimed by Nintendo at any time during the trial. After trial, in its formal Notice of the Objection to the Proposed Judgment, Universal made no mention of any objection to the award on the grounds of reasonableness, even though it had referred to such an objection in earlier correspondence to the court. On appeal, Universal did not directly brief this objection to the fee award; rather, it merely raised the issue in a footnote.

justified under the facts and circumstances of this case. *See Whitney v. Citibank*, 782 F.2d 1106 (2d Cir. 1986); *Aldrich v. Thomson McKinnon Securities Inc.*, 756 F.2d 243 (2d Cir. 1985).[10]

Similarly unchallenged is the award made by the district court pursuant to Fed. R. Civ. P. 11. After finding that Universal had acted in clear bad faith in filing this lawsuit and had used this lawsuit as an improper means to profit on Nintendo's trademark, the district court awarded Nintendo an amount equal to its attorney's fees expended in defending against Universal's claims. A112–13. Again, although not reached by the appellate court, the award of attorney's fees pursuant to Rule 11 provides another independent ground for Nintendo's judgment. Given the two independent alternative grounds for the award of attorney's fees, this Court need never reach the only issue sought to be presented here for review — the reasonableness of the fee award under the Lanham Act.

Finally, the district court did not abuse its discretion in determining the amount of the award under any of the three bases for the award. The award was made by a district court judge who was fully familiar with the proceedings which ultimately led to the dismissal of Universal's claims. The district court judge had reviewed the extensive summary judgment papers submitted by Nintendo following the close of discovery, and, in a detailed opinion, dismissed Universal's Lanham Act complaint. Following Universal's unsuccessful first appeal to the Court of Appeals for the Second Circuit, the same district court judge scrutinized the initial record and proceedings, this time in the context of a full trial on respondents' counterclaims in which he heard evidence from Universal's witnesses, judged

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10. The appellate court did, however, reach and uphold an award of exemplary damages in an amount equal to costs which were not included as attorney's fees, but which were disbursed by respondents in defending against Universal's Lanham Act claim. A12–13.

their credibility and assessed the damages to Nintendo. In a second carefully reasoned opinion, the district court judge granted in part and denied in part Nintendo's counterclaims and, citing the Lanham Act as one alternative basis, awarded respondents reimbursement of certain of their attorney's fees actually expended in defending against Universal's bad faith claims.

The amount of the fees awarded bore a direct relationship to the results achieved and was the subject of unchallenged testimony. At trial, Nintendo presented direct testimony of the amount of attorney's fees which it had paid in defending against Universal's claims. Nintendo specifically excluded from this amount the fees expended in presenting its counterclaims and even the fees expended in establishing the exceptional nature of this case, the very grounds which led to the award. Universal not only chose not to cross–examine Nintendo's witness on this point, but decided against challenging at any time during the trial the evidence presented regarding Nintendo's fees. Based on the uncross–examined trial testimony and the exceptional nature of the case, the district court specifically found that the amount awarded was reasonable.[11] The appellate court, finding that the district court had not abused its discretion, upheld the award.

Universal's reliance on the rulings of this Court and other lower courts in an attempt to create a reviewable issue is unavailing.[12] Unlike the Supreme Court and court of appeals

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11. The district court judge further considered his determination of reasonableness after the original opinion. Nintendo had sought clarification of the court's opinion, arguing that it should be awarded an amount equal to its attorney's fees as exemplary damages and a similar additional amount under the Lanham Act. The court rejected this request, stating that "[r]ecovery of the amount of attorney's fees under either theory will make Nintendo whole and compensate it for the damages suffered." A181.

12. The prior rulings of this Court on which Universal relies have no bearing on this case. Rather, they deal with the unique standards for award-

decisions cited by Universal (Univ. Pet. at 22), the district court here did not grant respondents an increased fee award or grant an award for fees incurred in connection with claims on which Nintendo did not prevail or grant an award for fees incurred in connection with related claims on which Nintendo did prevail. Instead, fully familiar with the substantive and procedural history of the case, the court awarded Nintendo the amount of fees which were actually paid in successfully defending against the very claims which were found to be without merit. Given the unique facts and circumstances of this case, and the unchallenged alternative and independent grounds for the award, Universal has presented no issue requiring review by this Court.

C. UNIVERSAL'S ATTEMPT TO RAISE A REVIEWABLE ISSUE CONCERNING THE APPLICATION OF STATE LAW IS FRIVOLOUS

On a fully developed record, the district court found that Universal, in bad faith, threatened Nintendo's licensees, causing them to breach their licensing contracts with Nintendo. A106–09. The district court correctly set forth the law of tortious interference with contract in New York, and, in a careful analysis of the facts, found that each of the elements of this state law tort was present. A104, 106–09.

In the district court Universal did not argue the novel proposition that causes of action stated under the state tort of malicious prosecution or abuse of process were the only permissible actions under New York law to redress the injuries

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ing attorney's fees under 42 U.S.C. § 1988. Universal attempts to treat the statutory authorization for attorney's fees under the Lanham Act under the same standards required by Section 1988, a statute with a markedly different legislative history and public purpose, which encourages prosecution of civil rights actions by private attorney generals and which does not require a specific finding that a case is exceptional before awarding fees, but instead presumes that fees will be awarded to prevailing parties.

inflicted by Universal. This argument and the case of *Curiano v. Suozzi*, 63 N.Y.2d 113, 480 N.Y.S.2d 466, 469 N.E.2d 1324 (1984) were raised by Universal for the first time in its second appeal to the Court of Appeals.

Universal's argument concerning the effect of the *Curiano* decision on New York's common law of tortious interference and Nintendo's responding argument were the subject of full briefing and oral argument in the Court of Appeals. The Court of Appeals correctly concluded that "it is clear that under New York law litigation or the threat of litigation can give rise to a claim for tortious interference with contractual relations." A8. However, because the Court of Appeals did not ultimately cite the *Curiano* case in its decision, Universal now requests, in effect, that this Court engage in speculation as to whether the Court of Appeals sufficiently considered Universal's argument based on *Curiano*.

The *Curiano* decision was obviously disregarded by the Court of Appeals since it is totally inapposite. *Curiano* defines the tort of malicious prosecution; it does not deal with the state tort of interference with contract — the tort with which Universal was charged and found guilty by the district court. As both the district court and the Court of Appeals found, all the elements of this tort were clearly established under state law. A7–11, 106–09. Nintendo's suit was not, as Universal contends, based on the simple fact that Universal filed this bad faith action. It was based on the fact that before and after the filing of this action, Universal systematically pursued Nintendo's licensees and caused them to breach their licensing agreements through a false claim of rights and threats of baseless litigation.

Universal is correct that the public policy of New York scrupulously requires specific elements to establish the tort of malicious prosecution to safeguard open access to the courts. But where threats of bad faith litigation and the courts are used to commit other torts such as fraud or tortious interference, those torts stand on their own footing. *See*

Guard–Life Corp. v. S. Parker Hardware Mfg. Co., 50 N.Y.2d 183, 191, 428 N.Y.S.2d 628, 632, 406 N.E.2d 445, 449 (1980). Indeed the threat of bad faith litigation causing a party to breach his contract with another is the classic scenario from which the tort of interference with contractual relations sprang. *See* Restatement (Second) of Torts § 767, Comment on Clause (a) ("prosecution of civil suits"). *See also Zilg v. Prentice–Hall, Inc.*, 717 F.2d 671 (2d Cir. 1983), *cert. denied*, 466 U.S. 938 (1984).[13]

Universal's argument that the Court of Appeal's decision raises reviewable issues in this Court because it did not cite the *Curiano* decision boils down to a request that this Court impose an absurd rule requiring federal courts, when applying state law, to discuss and distinguish every case from the highest state court cited by the litigants regardless of its inapplicability or the lack of merit of the litigant's argument. Alternatively, Universal would have this Court go far beyond the *Curiano* decision and announce sweeping new principles of New York tort law. A writ of certiorari addressed to either alternative would be wholly inappropriate.

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13. This is not a case, as Universal suggests, where state law is enjoining access to the federal courts or penalizing the assertion of federal claims. Univ. Pet. at 25, n.22. Because of Universal's bad faith invocation of the jurisdiction of a federal court, it was assessed attorney's fees pursuant to two independent federal bases, Section 35 of the Lanham Act and Rule 11 of the Federal Rules of Civil Procedure. Thus, Universal's liability for tortious interference with Nintendo's licenses and the award of an amount equal to Nintendo's attorney's fees as exemplary damages based on Universal's willful commission of this tort constitute no more a penalty for the assertion of federal claims than the federal bases relied on by the district court. Further, Universal's access to the federal court was in no sense enjoined. Its claims were fully considered and dismissed on the merits.

CONCLUSION

For the foregoing reasons, it is respectfully submitted that the petition of Universal City Studios, Inc. for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit should be denied.

Dated: November 10, 1986

Respectfully submitted,

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APPENDIX

MEMORANDUM OPINION

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

No. 82 Civ. 4259 (RWS)
September 16, 1985

UNIVERSAL CITY STUDIOS, INC.,

Plaintiff,

–v.–

NINTENDO CO., LTD. and NINTENDO OF AMERICA, INC.,

Defendants.

SWEET, D.J.

On August 22, 1985, defendants Nintendo Co., Ltd. and Nintendo of America, Inc. (collectively "Nintendo") noticed settlement on August 26 of a proposed judgment arising out of the opinion of this court filed on July 29, 1985 (the "opinion"). Prior counsel for plaintiff Universal City Studios, Inc. ("Universal") was relieved following the entry of the opinion, and on August 23, new counsel sought to stay entry of judgment. This application was granted to the extent of permitting the filing of additional papers in opposition to the

proposed judgment by August 30, with the understanding that no judgment would be entered during this period.

Letters from counsel for Nintendo dated August 1 and 12 and from counsel for Universal dated August 9 have been reviewed, as well as affidavits from both parties and the memorandum in opposition to the proposed judgment submitted by counsel for Universal. Upon these materials and all prior proceedings, the issues raised in connection with the proposed judgment will be resolved as set forth below, and judgment will be entered.

The principal dispute arises out of the language of the opinion at page 48:

> The award of attorney's fees pursuant to § 1117 provides an additional basis for granting Nintendo its attorney's fees for the successful defense of the Lanham Act claim but should not provide a double recovery.

In other words, the opinion specified two alternative grounds for granting a single award equal to Nintendo's attorney's fees (1) a punitive damages award on the tortious interference claim in the amount of Nintendo's attorney's fees incurred in defending Universal's infringement action, and (2) an award of attorney's fees under § 1117 of the Lanham Act. Recovery of the amount of attorney's fees under either theory will make Nintendo whole and compensate it for the damages suffered.

The amount of attorney's fees was the subject of unchallenged testimony. There is no basis in the record upon which to base the present objection as to the reasonableness of the fee.

Objection has also been made to the inclusion of $228,752.68 as costs in this portion of the award. While out–

of–pocket costs are an appropriate element of the punitive damages award, there is less basis, and no authority cited, for including out–of–pocket costs under § 1117 which refers only to attorney's fees. Of course, it is often said that it is discretionary with the court to award taxable court costs. Therefore, the judgment should set forth Nintendo's taxable costs for defending against Universal's Lanham Act claim. Any of Nintendo's $228,752.68 in out–of–pocket costs which are not properly taxable should be included in the judgment as an element of the punitive damages award.

With respect to the costs and attorney's fees of Nintendo for prosecuting the contributory copyright infringement counterclaim, Universal's objections are based on the ground that the costs and fees set forth in the Kirby affidavit are unreasonable. 17 U.S.C. § 505. The objection is based solely on the relationship between the fees and the damage recovery, the former exceeding the latter by almost 150%. For the reasons stated in the opinion and the particular circumstances presented in this litigation, the cited ratio of fee to recovery is reasonable. Therefore, the judgment will award Nintendo attorney's fees and court costs incurred in prosecuting the copyright infringement counterclaim.

Enter judgment on notice in accordance with the opinion as clarified, hopefully, by this memorandum opinion.

IT IS SO ORDERED.

DATED: New York, New York
September 16, 1985

/s/ROBERT W. SWEET
ROBERT W. SWEET
U.S.D.J.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

No. 82 Civ. 4259 (RWS)
November 24, 1985

UNIVERSAL CITY STUDIOS, INC.,
Plaintiff,

–v.–

NINTENDO CO., LTD. and NINTENDO OF AMERICA, INC.,
Defendants.

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SWEET, D.J.

Plaintiff/counterclaim defendant Universal City Studios, Inc. ("Universal") has brought a motion pursuant to Rule 59(a), Fed. R. Civ. P., for a partial new trial in the interests of substantial justice. Alternatively, Universal moves pursuant to Rule 11, Fed. R. Civ. P., for a hearing to determine whether Universal is entitled to recover attorneys' fees incurred in defending against defendant Nintendo Co., Ltd. and Nintendo of America, Inc. (collectively, "Nintendo") counterclaims for misappropriation of property and unjust enrichment. Nintendo opposes these motions and further seeks Rule 11 sanctions against Universal for filing the present motions. For the following reasons, Universal's motions will be denied, and Nintendo's cross–motion will be denied.

Prior Proceedings

In April, 1982, Universal initiated this action against Nintendo claiming that by Nintendo's use of a gorilla in its Donkey Kong game, Nintendo had violated Universal's King Kong rights under Section 43(a) of the Lanham Act, section 368–d of the New York General Business Law, and state common law. On cross–motions for summary judgment, Nintendo's defenses to Universal's claims of infringement were upheld, and the complaint was dismissed. 578 F. Supp. 911 (S.D.N.Y. 1983). On appeal, the grant of summary judgment was upheld on the ground that there was no likelihood of confusion between Donkey Kong and King Kong. 746 F.2d 112 (2d Cir. 1984). Familiarity with those opinions is assumed.

The parties continued with discovery on the unresolved Nintendo counterclaims of misappropriation, unjust enrichment, tortious interference and vicarious infringement of copyright. Following a bench trial conducted from May 20 to May 28, 1985, by opinion dated July 29, 1985, Nintendo's counterclaim for unjust enrichment was denied while its counterclaims for vicarious copyright infringement and tortious interference with contractual relations were granted. Attorneys' fees expended by Nintendo were awarded on alternative grounds, as punitive damages; under 17 U.S.C. § 505; under 15 U.S.C. § 1117; and under Fed. R. Civ. P. 11. Following the filing of the July 29 opinion and the ensuing judgment, the instant rule 59(a) and Rule 11 motions were made.

Discussion

The principal issue raised by Universal's motion for a partial new trial pursuant to Rule 59 is whether it would be in the interests of "substantial justice" to permit Universal to introduce the testimony of Stephen A. Kroft, Esq. ("Kroft"), a member of the California bar, and one of Universal's primary legal advisors both in litigation matters generally and in this particular action. Kroft was never called to testify in opposition to Nintendo's counterclaims and was, as his affidavit on this motion demonstrates, "stunned" by the court's findings in the July 29 opinion. The central issue on which his testimony would have been relevant was whether Universal initiated this action in "good faith."

The July 29 opinion held that a determination of Universal's good faith depended on the totality of the circumstances regarding Universal's reliance on advice of counsel and not the mere fact that an affirmative legal opinion was rendered. *See* July 29 opinion at 44. In evaluating the totality of the circumstances, it was deemed pertinent that: "whatever advice of counsel Universal received, it was insufficient to identify a cognizable right approaching that asserted in the

complaint and was proffered without research or memoranda analyzing the claim." *Id.* In addition, a number of facts were found relative to the good faith issue, particularly Universal's termination of the King Kong licensing program, and the conduct of the licensing of the Tiger game.

Universal now urges that because "it had no reason to anticipate" that Kroft's basis for his opinion was relevant it has suffered prejudice on the basis of "unfair surprise." *Cf. Conway v. Chemical Lehman Tank Lines, Inc.*, 687 F.2d 108, 111–12 (5th Cir. 1982).

In its memorandum in support of this motion, Universal cites the summation by its trial counsel where Universal had argued the advise of counsel issue:

> So the court is clear on what we are arguing: in the context and circumstances of this case, Universal had an absolute right to rely on Mr. Kroft's advice. Whether the advice was good advice or bad advice is not the issue. The issue is did Universal have a right to rely on that advice in the context of this case and the point is I think the answer is self–evident. The man was the litigation counsel for Universal and he had handled that proceeding in 1975 and 1976 and by the time the decision was taken whether he looked into those things thoroughly or he did not look into them thoroughly he knew enough to bring the lawsuit, enough to advise on the lawsuit.

As Universal recognized, this legal position was vigorously opposed by Nintendo's assertion that a "totality of the circumstances" analysis of good faith was the more appropriate standard. The case law setting forth this standard was, of course, amply cited by Nintendo at trial. *See Central Soya Company, Inc. v. George A. Humel & Co.*, 723 F.2d 1573,

1577 (Fed. Civ. 1983). *See also Rea v. Wichita Mortgage Corp.*, 747 F.2d 567, 576 (10th Cir. 1984); *Securities and Exchange Commission v. Savoy Industries, Inc.*, 665 F.2d 1310, 1314 n.28 (D.C. Cir.1981). Moreover, the totality of the circumstances standard is closely related to the basic requirement that the party asserting the good faith defense must demonstrate that its reliance was accompanied by a full disclosure of all facts that are relevant to the advice required. *See Securities and Exchange Commission v. Mauro Nursing Center, Inc.*, 458 F.2d 1082, 1101 (2d Cir. 1972). Such a standard contemplates a good faith exchange of information and advice between client and counsel and fully comports with the realities of the relationship between sophisticated corporate officers, such as those of Universal, and their outside attorneys, such as Kroft. Finally, the totality of the circumstances approach prevents a mere pretextual assertion of good faith.

All of the relevant legal authorities on this issue were fully addressed by competent counsel at trial. Thus, Universal's claim of prejudice can be distilled down to its assertion that it had "no way" of knowing that Kroft's analysis of the legal issues and his understanding of the factual basis underlying those issues would be considered by the court as one of the relevant aspects of the totality of the circumstances and further that testimony on that subject would in all likelihood produce a different result.

However, Universal was well aware of the central importance of Kroft since it had interjected his alleged advice as a good faith defense and presented hearsay testimony by Hadl regarding the communications between himself and Kroft. Immediately after Universal rested its defense without calling Kroft, Nintendo explicitly requested the court to draw a negative inference from Kroft's absence, and no change of position was taken by Universal at that time. Now Universal concedes by affidavit that, after due deliberation, it chose as a tactical litigation decision to rely solely on Hadl's testimony in

conjunction with the "good faith" reliance on advice on counsel defense.

Under these circumstances, Universal's request for a partial new trial must be denied, for it "appears that [plaintiffs] motion is grounded on a contention available to every defeated plaintiff — that it could not have foreseen that the district court would reject its claim without the testimony of the absent witness." *Hoyt R. Matise Co. v. Żurn*, 754 F.2d 560, 568 n.16 (5th Cir. 1985). *See also Cathedral Estates, Inc. v. Taft Realty Corp.*, 228 F.2d 85, 89 (2d Cir. 1955); *General Electric Co. v. Minneapolis Honeywell Regulator Co.*, 35 F. Supp. 35, 36 (E.D.N.Y. 1940). To reach such a conclusion in no way impugns Kroft's affidavit as to his advice or activities. It is not now proper to speculate as to whether such testimony would have produced a different factual finding.

Whatever interests Universal may have in reopening the trial are far outweighed by interests of justice in preserving the integrity of the trial process. In the course of this trial, Universal's witnesses were excluded from the courtroom specifically because credibility was a central element of the good faith defense. Now that Universal has received a detailed blueprint of the court's deliberation, as embodied by the July 29 opinion, it seeks to add new evidence on a critical aspect of the finding in order to overturn the judgment or perhaps to sharpen the issues to be presented on appeal. The reopening of trial would in this case result in substantial advantage for Universal and would make it impossible to obtain a fresh determination of Kroft's testimony as it relates to the totality of the circumstances. Therefore, Universal's motion for a partial new trial will be denied.

In addition, first, Kroft's knowledge and understanding of Universal's Lanham Act and unfair competition claims would not necessarily alter this court's findings regarding the motives of and statements by Universal's officials as set forth

in the July 29 opinion. Although Kroft refers to a draft memorandum prepared on or about April 23, 1982, it was not sent to Hadl or anyone else at Universal, but simply discussed informally in a telephone conversation. While never finalized, the memorandum or its sequelae recognized the very serious problem to Universal with respect to the secondary meaning issue underlying its alleged Lanham Act claim. In any case, the Kroft affidavit, taken at face value, does not establish by itself that a different result would have obtained.

While Universal's present motion must be denied in the interests of finality, it is not so frivolous as to justify the Rule 11 sanctions sought by Nintendo on its cross-motion. Given the serious nature of the circumstances underlying the judgment in this action and the magnitude of the award, Universal's motion has been brought in good faith.

Universal by its Rule 11 motion seeks attorney's fees for its defeat of Nintendo's infringement claims. Again perhaps this is done more to etch appellate issues than to provide practical relief. In any case, the motion is unavailing. There is no factual showing now available to Universal or offered at trial to satisfy the burden of establishing a lack of good faith as set forth by the authorities cited in the July 29 opinion. Not every successful defense will result in attorneys' fees, only those which establish unusual facts to demonstrate that a lack of good faith in the initiation of the claim. Nintendo established such facts in the view of the court. Universal did not.

The motions of Universal and Nintendo are denied and the judgment will not be vacated.

IT IS SO ORDERED.

Dated: New York, New York
November 24, 1985

/s/ROBERT W. SWEET
ROBERT W. SWEET
U.S.D.J.

Supreme Court, U.S.
FILED
NOV 14 1986
JOSEPH F. SPANIOL, JR.
CLERK

No. 86-590

IN THE

Supreme Court of the United States

OCTOBER TERM, 1986

UNIVERSAL CITY STUDIOS, INC.,

Petitioner,

—against—

NINTENDO CO., LTD. AND NINTENDO OF AMERICA, INC.,

Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

REPLY BRIEF IN SUPPORT OF PETITION

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1986

No. 86-590

UNIVERSAL CITY STUDIOS, INC.,

Petitioner,

—against—

NINTENDO CO., LTD. AND NINTENDO OF AMERICA, INC.,

Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES
COURT OF APPEALS FOR THE SECOND CIRCUIT

REPLY BRIEF IN SUPPORT OF PETITION

Nintendo's brief opposing certiorari attempts to side-step Universal's reasons for seeking the writ. Nintendo concedes that the lower courts imposed unprecedented litigation sanctions without first determining that Universal's legal positions were legally frivolous or unfounded. Nintendo Br. 2, 4, 9-10; Universal Petition 15, 16-17, 18-21, 23-24. Nintendo simply ignores that there was substantial legal authority supporting Universal's positions, and that the Second Circuit condemned Universal for asserting legal positions with which the District Court had specifically *agreed*. Petition 5-9 & nn.3-5, 7-9, 16-18, 20.

Nintendo cannot deny that in disregard of *Hensley* v. *Eckerhart*, 461 U.S. 424 (1983), neither court below affirmatively determined that the fee award was reasonable, as expressly required by the Lanham Act. Nintendo cannot dispute that the

Second Circuit, although dealing with issues governed by New York law, failed even to cite a recent, apparently controlling ruling of New York's highest court, relying instead on dictum in one of its own interpretations of New York law and in an earlier New York case. *See generally* Universal Petition 15-16, 17-18, 21-22, 24-26.

Moreover, Nintendo nowhere tries to dispute Universal's demonstration that the decisions below flash a giant green light to all prevailing defendants, encouraging "sanctions" applications on a much larger scale than at present. Universal Petition 2-4, 23-24. Nintendo must recognize, as Universal's petition sets forth, that "sanctions" litigation has already become a growth industry in the federal courts; and therefore that a decision like the present one, which portends a still further increase, must be a matter of substantial concern to this Court.

Notwithstanding all this, Nintendo opposes certiorari on the basis that this case is a "most inappropriate context" to consider the sanctions issues Universal has raised, because the case is "fact-bound" and "replete" with findings of "subjective bad faith." Nintendo Br. 2, 4-9, 12. Nintendo also asserts that, apart from Section 35 of the Lanham Act, on which the Second Circuit relied in affirming the attorney's fee award, the award can be sustained on two "alternative grounds." *Id.* at 2-4, 13-14. These assertions, and Nintendo's other attempts to preclude this Court's review of the extraordinary decision below, are absolutely without merit.

First: Nintendo's claim that the lower courts' findings of bad faith make review by this Court inappropriate is completely unsound. It is precisely Universal's point that there cannot be "bad faith" in any sense relevant here unless and until it is determined that a litigant's legal positions, as an objective matter, were unfounded or frivolous. Nintendo concedes that no such determination was made. Nintendo Br. 2, 4, 9-10.

Nintendo claims that sanctions were nonetheless appropriate because "something far worse" than lack of objective legal

merit was found: that, *subjectively*, Universal "knew" it had no rights. Nintendo Br. 2, 5. Nintendo's position is both illogical and unsound. Where legal rights are concerned, one cannot logically be said to "know" whether they exist unless, objectively, the law is "clearly established" so that "a reasonable person would have known" it. *Harlow* v. *Fitzgerald*, 457 U.S. 800, 818 (1982). Moreover, Nintendo's "subjective bad faith" standard, because it does not require a determination of meritlessness, would permit the sanctioning even of claims having arguable legal merit—and would do so based on the outcome of a complex, costly fact-finding process. Indeed, that is precisely what happened here. Far from reducing burdens on the courts—which should be the basic purpose of litigation sanctions—Nintendo's subjective bad faith standard would needlessly add to them. Compare *Harlow* v. *Fitzgerald*, *supra*, 457 U.S. at 815-17.

This is *not* a case where Universal was found to have *litigated* in "bad faith"—*e.g.*, by obstructing discovery, making frivolous motions, failing to litigate expeditiously or the like. The *sole* misconduct of which Universal was supposedly guilty was to assert a "bad faith" legal position. A9-11. Universal submits that a proper finding of "bad faith" in this sense necessarily required a careful analysis of the legal basis for the positions taken, justifying the conclusion that, as an objective matter, they had no such basis.[1]

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1 Such an objective standard has the additional virtue of not requiring an extensive factual record—much less the week-long "sanctions" trial which occurred here. Moreover, as this case graphically demonstrates, failure to make a threshold determination about objective legal merit makes the fact-finding process itself standardless. Thus, the "factual record" of "bad faith" to which Nintendo keeps referring consisted principally of evidence that Universal's retired general counsel recognized that RKO and Dino De Laurentiis Corp. had copyright rights in their "King Kong" movies. Nintendo argued that this recognition meant that Universal "knew" it had no trademark rights in King Kong, although that issue had never been adjudicated. The lower courts' failure to analyze the objective legal merits of this trademark/copyright issue led them to accept Nintendo's arguments. Yet Nintendo now concedes, by silence, Universal's showing that there was substantial authority to support its position that the movie copyrights did not preclude existence of a separate trademark. *See* Universal Petition 6 n.3.

Here, an objective standard would absolutely preclude sanctions. As Universal has shown without contradiction by Nintendo: (a) the lower courts made no analysis of the legal merit of Universal's positions; (b) there was no holding that those positions were frivolous; (c) there was extensive legal authority *for* Universal's position; (d) this authority included rulings of the District Court in this very case; and (e) this authority included the prior Cooper Judgment, which awarded Universal's predecessor "*all* rights *in and to*" King Kong. Universal Petition 5-9, 20-21.[2]

It thus remains true that if Universal can be sanctioned here, for doing no more than asserting that "all rights in and to" a character include trademark rights in that character—and where the record is absolutely devoid of discovery abuse or any other post-complaint misconduct—a radical expansion of "sanctions" litigation is all but inevitable. This Court can prevent that wholly unacceptable prospect—without a "full review" of the particular facts of this case, as Nintendo claims—by making clear to the lower courts that, before

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2 Nintendo quotes with approval the Second Circuit's construction of the Cooper Judgment as meaning that "Cooper did not hold any trademark rights against the world in King Kong. Any such rights that might exist would be solely against RKO." Nintendo Br. 7, quoting A5. But this construction runs afoul of elementary principles of trademark, under which *any* trademark rights would be rights to exclude "the world", *i.e.*, to prevent consumer confusion as to source—not mere contract rights against RKO. *E.g.*, *Hamilton-Brown Shoe Co.* v. *Wolf Bros.*, 240 U.S. 251, 259 (1916). *See also* the definition of "trade-mark" itself in Section 45 of the Lanham Act, 15 U.S.C. § 1127.

This construction also ignores the plain language of the Judgment, which awarded Major Cooper all rights "*in and to*" the King Kong name and character themselves, not contract rights against RKO. A117. Nintendo simply cannot explain away the Second Circuit's failure to give effect to this specific, core provision of the Judgment.

Nintendo distorts the record in its attempt to excuse the Second Circuit's failure. It states that the Cooper Judgment was entered "concurrently" with another judgment establishing that "King Kong could not be a trademark." Nintendo Br. 6. In fact the Cooper Judgment was finally entered in 1981, long *after* the other judgment had been *vacated*, A116; and the other judgment did *not* determine that "King Kong could not be a trademark." *See* Universal Petition 8-9; A159.

sanctions can be imposed for taking a legal position, there must be an objective determination that the position lacks legal merit—such as was made in *Noxell Corp.* v. *Firehouse No. 1 Bar-B-Que Restaurant*, 771 F.2d 521 (D.C. Cir.), *rehearing en banc denied*, 774 F.2d 1180 (1985).[3]

Second: Nintendo's contentions that grounds alternative to the Lanham Act permit affirmance of the fee award are spurious. Neither Rule 11 of the Federal Rules of Civil Procedure, nor New York law of punitive damages—the two "alternative grounds" asserted by Nintendo—would permit affirmance of the Lanham Act fee award.

As Universal noted in its petition, the version of Rule 11 here involved is Rule 11 prior to the 1983 amendments. Universal Petition 14-15 n.14. The Second Circuit's own prior decisions make clear that the pre-1983 version of Rule 11 addressed *only* improper conduct by the attorney who signed the complaint. *E.g.*, *Eastway Construction Corp.* v. *City of New York*, 762 F.2d 243, 253 (2d Cir. 1985); *Nemeroff* v. *Abelson*, 620 F.2d 339, 350 (2d Cir. 1980). It did *not* authorize sanctions against a litigant. *See*, *e.g.*, *Tedeschi* v. *Smith Barney, Harris Upham & Co.*, 579 F. Supp. 657, 661 (S.D.N.Y. 1984), *aff'd*, 757 F.2d 465 (2d Cir.), *cert. denied*, 106 S. Ct. 147 (1985); *United States* v. *Standard Oil of California*, 603 F.2d 100, 103 n.2 (9th Cir. 1979). Here, there was absolutely no finding that Universal's trial counsel acted improperly; to the precise contrary, the District Court repeatedly praised the highly professional conduct of trial counsel. *E.g.*, A19, A66.

Moreover, implicit in Nintendo's Rule 11 argument is the necessary proposition that Rule 11, in its pre-1983 form, could

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3 Nintendo's "distinctions" of *Noxell* (Br. 10-12) completely miss Universal's point. Universal cited, and relies on, *Noxell* because of the careful analysis of a legal position which the D.C. Circuit undertook before imposing sanctions for its assertion. Universal submits that *Noxell* correctly recognized a court's responsibility *not* to impose sanctions for taking a legal position *without* such a careful analysis.

authorize sanctions against a lawyer for asserting a legal position which was *not* frivolous or unfounded. Nintendo cites no authority for this proposition.[4]

Nintendo's other "alternative ground" argument is equally unavailing. Nintendo asserts that New York punitive damage law would permit an award of $1.1 million in attorney's fees for Universal's assertion of trademark rights. But Nintendo has yet to cite a single New York case holding that the filing of a civil lawsuit could constitute "criminal indifference to civil obligations," as New York requires before imposing punitive damages. *Walker* v. *Sheldon*, 10 N.Y.2d 401, 405, 223 N.Y.S.2d 488, 491 (1961). Given New York's "strong public policy of open access to the courts for all parties," *Curiano* v. *Suozzi*, 63 N.Y.2d 113, 118-19, 480 N.Y.S.2d 466, 470 (1984), it is clear that there could be no such authority.[5]

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4 The Second Circuit's failure to base an award on Rule 11 presumably also reflected that the pre-1983 Rule did not even mention attorney's fees. Under the Second Circuit's own precedents, it is unclear that pre-1983 Rule 11 permitted *any* fee award, much less the huge award involved here. *E.g.*, *Nemeroff* v. *Abelson*, *supra*, 620 F.2d at 350.

5 Moreover, as Universal showed in its petition—and as Nintendo concedes by silence—the Second Circuit's punitive damage discussion here was based on a legal proposition which the District Court had squarely rejected—that the public domain status of the King Kong novel precludes a King Kong trademark. A13; compare the District Court's rulings, A29, A42 n.6; *see* Universal Petition 6-7, 17-18. It is nothing short of preposterous for Nintendo to argue as an "alternative ground" that an additional $1.1 *million* in punitive damages can be awarded against Universal for taking a legal position with which the District Court *agreed*.

Nintendo's attempt to justify punitive damages also founders on the fact that the only conduct of Universal which was held to be tortious—other than filing suit against Nintendo—was its sending "lawyer's letters" to certain of Nintendo's "Donkey Kong" licensees. These letters (which were identical) described Universal's claims against Nintendo and warned of similar litigation against the licensees. A sample letter is reproduced at p. A190 of the appendix to this brief. It is solely Universal's delivery of these letters which underlies Nintendo's charges that Universal committed an "assault on Nintendo's licensees," Br. 4, and that "Universal systematically pursued Nintendo's licensees," *id.* 17. Such overheated rhetoric does not begin to justify an award of punitive damages.

Third: Nintendo's discussion of the "reasonableness" issue—its attempt to excuse the lower courts' complete failure to find the fee award reasonable in amount—tries to defend the indefensible. There can be no justification for the lower courts' utter silence on this issue—although faced with what appears to be the largest fee award of its kind ever made. Nintendo does not even mention this Court's decision in *Hensley* v. *Eckerhart*, 461 U.S. 424 (1983). *Hensley* requires that a party seeking court-awarded fees must affirmatively prove hours worked, hourly rates, and information sufficient to determine if "billing judgment" was exercised. None of this happened here. See also *City of Riverside* v. *Rivera*, ____ U.S. ____, 106 S. Ct. 2686 (1986); *Pennsylvania* v. *Delaware Valley Citizens' Council for Clean Air*, ____ U.S. ____, 106 S. Ct. 3088, *restored to argument docket*, 106 S. Ct. 3331 (1986).[6]

Fourth: Nintendo attacks Universal's demonstration that the Second Circuit failed to comply with the requirements of *Erie Railroad Co.* v. *Tompkins*, 304 U.S. 64 (1938), in determining applicable New York law. (New York law of tortious interference with contract and punitive damages is the only purported basis for $316,717.69 of the award against Universal.) See Universal Petition 17-18, 24-26. Nintendo asserts that the most recent ruling of New York's highest state court, *Curiano* v. *Suozzi*, 63 N.Y.2d 113, 480 N.Y.S.2d 466 (1984)—unmentioned by the Second Circuit—is "inapposite" (or even "totally" inapposite) to this case. Nintendo Br. 17. Nintendo contends that its "distinctions" of *Curiano* somehow justify the Second Circuit's complete disregard of that apparently controlling decision. Nintendo Br. 17-18. Quite apart from the

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6 Petitioner notes that this Court recently granted certiorari in another case which discusses the "reasonable fee" requirement of the Lanham Act. *International Olympic Committee* v. *San Francisco Arts & Athletics*, 781 F.2d 733, 739, *amended on other grounds*, 789 F.2d 1319 (9th Cir.), *cert. granted sub nom. San Francisco Arts & Athletics, Inc.* v. *United States Olympic Committee*, 55 U.S.L.W. 3277 (Oct. 20, 1986). It appears from the questions presented in that petition, however, that the fee issue is not its focus.

lack of merit to Nintendo's proposed distinctions, spelled out in the footnote, Nintendo once again completely misses Universal's point.

Under *Erie* and its progeny, the issue is not why *Nintendo* thinks an apparently controlling state court decision is "inapposite"; the issue is why the *Second Circuit* thinks so—if this is indeed what it thinks. Nintendo has no basis for saying why the *Second Circuit* regarded *Curiano* as other than controlling. Universal—which has to pay the $300,000-plus in "state law" damages—likewise has no idea why, and absolutely no assurance that there is *any* basis for the award, other than Nintendo's choice to plead state-law claims in a federal court.

This result cannot be squared with *Erie*. *Curiano* is, indisputably, (a) the most recent ruling (b) of the state's highest court, (c) on the precise issue of when "wrongful litigation" is actionable under applicable state law, and (d) therefore of when *any* compensatory or punitive damages for that conduct can be recovered, much less more than $300,000 worth. *Erie* would become the next thing to a dead letter if this Court allowed the lower courts simply not to discuss, or even cite, such strong state law authority where state law provides the rule of decision.

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7 *Curiano*, which is reproduced in full in the appendix to this brief, squarely rejected a claim for "intentional infliction of economic harm by commencement of a lawsuit without legal excuse or justification." A193. It squarely held that, unless malicious prosecution could be alleged—and Nintendo never even claimed that that tort lies here—allowing such an action violates New York's "strong public policy of open access to the courts for all parties without fear of reprisal in the form of a retaliatory lawsuit." A196.

Nintendo claims that *Curiano* is "totally inapposite" because Nintendo pleaded that Universal's litigation constituted "tortious interference with contract," not "intentional infliction of economic harm." Br. 17. But this linguistic difference is legally irrelevant; under New York law, "the plaintiff's right to maintain an action does not hinge on the label used." *Board of Education* v. *Farmingdale Classroom Teachers Ass'n*, 38 N.Y.2d 397, 406, 380 N.Y.S.2d 635, 644 (1975). Nor does the earlier *Guard-Life* case cited by Nintendo (Br. 18) hold that non-frivolous litigation can be the "wrongful means" required for tortious interference. *No* New York case so holds. *Only* the federal court decisions below do so.

CONCLUSION

For the foregoing reasons, it is respectfully submitted that a writ of certiorari should issue to review the judgment of the United States Court of Appeals for the Second Circuit.

Dated: November 14, 1986

Respectfully submitted,

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APPENDIX

APPENDIX

January 3, 1983

REGISTERED MAIL

Super Shirts Inc.
15235 N.E. 95th Street
Redmond, WA 93052

Re: *Donkey Kong*

Gentlemen:

We are attorneys for Universal City Studios, Inc., owner of the trademark and trade name rights in the name "King Kong," the gorilla character "King Kong" and certain pictorial and graphic depictions of the character "King Kong" made famous by several motion pictures.

As a result of pretrial discovery taken in a lawsuit which our client commenced against Nintendo of America, Inc. and Nintendo Co. Ltd. in the federal court in the Southern District of New York in June of last year, it has come to our client's attention that you are distributing and selling certain products bearing the name "Donkey Kong," apparently pursuant to a licensing arrangement with these defendants.

The claims made by our client Universal in this lawsuit are for common law trademark infringement, violations of § 43(a) of Lanham Act, misappropriation of Universal's rights in the "King Kong" name, character and story, and unfair competition.

We write you at this time to put you on notice that our client regards your use of the trademark "Donkey Kong" in conjunction with the products you sell as an infringement of its rights in "King Kong" for the same reason it regards Nintendo's use of "Donkey Kong" as an infringement of its rights. You should

understand as well that our client intends to press its legal rights against you and other Nintendo licensees. Accordingly, we would suggest to you two alternatives:

1. You immediately cease and desist from using "Donkey Kong" as a trademark in conjunction with the products on which you are now using that name; or

2. You secure a license from Universal authorizing you to use the name "King Kong" and variations of that name, including "Donkey Kong." Naturally, Universal would first require that you submit to it for its inspection and evaluation the products you are selling under the "Donkey Kong" name before any such license would issue.

Very truly yours,

DOUGLAS C. FAIRHURST

DCF/ks

[Defendant's Exhibit 23]

[Reprinted at 63 N.Y.2d 113,
480 N.Y.S.2d 466, 469 N.E.2d 1324]

NEW YORK COURT OF APPEALS

ROBERT CURIANO et al.,

Appellants,

—v.—

JOSEPH SUOZZI et al.,

Respondents.

Decided October 11, 1984

Opinion of the Court

SIMONS, J.:

The question presented on this appeal is whether plaintiffs may recover damages from defendants in a cause of action for prima facie tort because defendants instituted a prior defamation action against them which is still pending and which plaintiffs allege is vexatious and without merit.

The suit arises from campaign literature published by a group of government officials, including plaintiffs, of the City of Glen Cove and Nassau County. The literature, which was intended to oppose the reelection of defendant Suozzi's brother as Mayor, alleged that defendant Suozzi, a former Associate Justice of the Appellate Division, Second Department, had engaged in a speculative real estate purchase and profited from decisions made by his brother acting as Mayor while defendant was still sitting on the Bench. As a result of

the accusations, defendant Suozzi, appearing by his own law firm, the other defendant in this action, instituted a libel action denominated *Suozzi* v. *Parente* against several defendants, including the plaintiffs here.

Plaintiffs then brought this suit asserting two causes of action. In the first they alleged that defendants had defamed them in the *Suozzi* v. *Parente* action by accusing them of libeling Suozzi. It was dismissed by Special Term and plaintiffs have not appealed from that determination. In the second cause of action plaintiffs contend that the purpose of the *Suozzi* v. *Parente* action was not to remedy a wrong believed in good faith to have been committed but was brought "for the malicious and intentional purpose of harming defendants therein" and "to punish the plaintiffs for exercising their constitutional right to free speech and to participation in the public election process." Plaintiffs also asserted that institution of the prior action violated a "duty owed plaintiffs to refrain from institution of a baseless legal proceeding" and "was further intended to cause the plaintiffs expense and to burden them with the defense of a protracted legal proceeding", thereby damaging them.

Special Term denied defendants' motion to dismiss the second cause of action. It found an action for prima facie tort sufficiently stated insofar as the complaint alleged "intentional infliction of economic harm by commencement of a lawsuit without legal excuse or justification", citing this court's decision in *Board of Educ.* v. *Farmingdale Classroom Teachers Assn.* (38 NY2d 397). The Appellate Division, characterizing the cause of action as one sounding in abuse of process, reversed and granted defendants' motion to dismiss (102 AD2d 759). The basis of its decision was plaintiffs' failure to allege an improper use of process after it was issued and a wrongful interference with person or property under color of process, both of which it held were necessary to such an action.

There should be an affirmance. Taking plaintiffs' allegations as true, as we must on a motion to dismiss (see *Sanders* v. *Winship*, 57 NY2d 391, 394), the complaint does not state a cause of action for either abuse of process or prima facie tort.

Abuse of process has three essential elements: (1) regularly issued process, either civil or criminal, (2) an intent to do harm without excuse or justification, and (3) use of the process in a perverted manner to obtain a collateral objective (*Board of Educ.* v. *Farmingdale Classroom Teachers Assn.*, *supra*, at p. 403). Relevant on this appeal are the first and last of these elements. First, the process used must involve "an unlawful interference with one's person or property" (*Williams* v. *Williams*, 23 NY2d 592, 596). Insofar as the only process issued in the *Suozzi* v. *Parente* action was a summons, the process necessary to obtain jurisdiction and begin the lawsuit, there was no unlawful interference with plaintiffs' persons or property because the institution of a civil action by summons and complaint is not legally considered process capable of being abused (*Hoppenstein* v. *Zemek*, 62 AD2d 979, 980; see *Drago* v. *Buonagurio*, 61 AD2d 282, 285, rev'd on other grounds 46 NY2d 778; *Osinoff* v. *Muchnick*, 53 AD2d 858, 859). Moreover, plaintiffs have not alleged the " 'gist of the action for abuse of process' ", which is " 'the improper use of process after it is issued' " (*Williams* v. *Williams*, *supra*, at p. 596; *Dean* v. *Kochendorfer*, 237 NY 384, 390; *Miller* v. *Stern*, 262 App Div 5, 8). They do not contend that the summons issued by defendants was improperly used after it was issued but only that defendants acted maliciously in bringing the action. A malicious motive alone, however, does not give rise to a cause of action for abuse of process (*Hauser* v. *Bartow*, 273 NY 370, 374).

The claim that the complaint states a cause of action for prima facie tort was ruled on by Special Term but not addressed by the Appellate Division. Plaintiffs' contention is that prima facie tort will lie against the defendants for instituting an allegedly baseless lawsuit.

Some years ago this court recognized the general principle that harm intentionally inflicted is prima facie actionable unless justified (see *Advance Music Corp.* v. *American Tobacco Co.*, 296 NY 79; *American Guild of Musical Artists* v. *Petrillo*, 286 NY 226; *Opera on Tour* v. *Weber*, 285 NY 348, cert den, 314 US 615). That principle has developed into the

specific cause of action of prima facie tort consisting of four elements: (1) intentional infliction of harm, (2) causing special damages, (3) without excuse or justification, (4) by an act or series of acts that would otherwise be lawful (*Burns Jackson Miller Summit & Spitzer* v. *Lindner*, 59 NY2d 314, 332; *ATI, Inc.* v. *Ruder & Finn*, 42 NY2d 454, 458). While prima facie tort may be pleaded in the alternative with a traditional tort, once a traditional tort is established the cause of action for prima facie tort disappears (*Board of Educ.* v. *Farmingdale Classroom Teachers Assn.*, 38 NY2d 397, 406, *supra*).

Plaintiffs' complaint is insufficient to state a cause of action for prima facie tort insofar as it fails to plead special damages (see *Howard* v. *Block*, 90 AD2d 455; *Ginsberg* v. *Ginsberg*, 84 AD2d 573, 574) and that the sole motivation for the *Suozzi* v. *Parente* action was "disinterested malevolence" (see *Burns Jackson Miller Summit & Spitzer* v. *Linder*, 59 NY2d 314, 333, *supra*; *Reinforce, Inc.* v. *Birney*, 308 NY 164, 169; *Beardsley* v. *Kilmer*, 236 NY 80, 90). We need not base our decision upon technical pleading grounds, however, for New York courts have consistently refused to allow retaliatory lawsuits based on prima facie tort predicated on the malicious institution of a prior civil action (see *Drago* v. *Buonagurio*, 46 NY2d 778, rev'g 61 AD2d 282, *supra*; *Howard* v. *Block*, *supra*; *Ginsberg* v. *Ginsberg*, *supra*; *Scully* v. *Genesee Milk Producers' Coop.*, 78 AD2d 982, app dsmd, 52 NY2d 969; *Belsky* v. *Lowenthal*, 62 AD2d 319, aff'd, 47 NY2d 820; *Knapp Engraving Co.* v. *Keystone Photo Engraving Corp.*, 1 AD2d 170).

Plaintiffs instituted the present action in obvious retaliation for defendants' libel suit. As a matter of policy, it would be unwise to allow it to continue for it would constitute a serious misuse of the cause of action for prima facie tort and could lead to inconsistent results, confusion of issues, and a waste of judicial resources. Prima facie tort is designed to provide a remedy for intentional and malicious actions that cause harm and for which no traditional tort provides a remedy. In this action, however, the gravamen of plaintiffs' second cause of action is one sounding in malicious prosecution, the malicious

institution of judicial proceedings without probable cause for doing so which finally ends in failure (see *Burt* v. *Smith*, 181 NY 1, app dsmd, 203 US 129; PJI 3:50). At the very least plaintiffs must await the completion of the *Suozzi* v. *Parente* action and then bring an action for civil malicious prosecution at which time the merits of their arguments can be assessed properly. On the record before us, it appears unlikely that such an action would be successful because plaintiffs have not alleged an interference with their person or property, an element which is required when the underlying action is civil in nature (see *Burt* v. *Smith*, *supra*).

But even assuming an action for malicious prosecution lies after the *Suozzi* v. *Parente* case is completed, plaintiffs should not be allowed to plead prima facie tort in the alternative. It should not "become a 'catch-all' alternative for every cause of action which cannot stand on its legs" (*Belsky* v. *Lowenthal*, 62 AD2d 319, 323, aff'd, 47 NY2d 820, *supra*, quoted in *Burns Jackson Miller Summit & Spitzer* v. *Lindner*, 59 NY2d, at p. 333). By using it, plaintiffs seek to avoid the stringent requirements we have set for traditional torts, such as malicious prosecution, requirements which are necessary to effectuate the strong public policy of open access to the courts for all parties without fear of reprisal in the form of a retaliatory lawsuit. To permit plaintiffs' action to continue under these circumstances would create a situation where litigation could conceivably continue *ad infinitum* with each party claiming that the opponent's previous action was malicious and meritless.

Accordingly, the order of the Appellate Division should be affirmed, with costs.

Chief Judge Cooke and Judges Jasen, Jones, Wachtler and Kaye concur; Judge Meyer taking no part.

On review of submissions pursuant to section 500.4 of the Rules of the Court of Appeals (22 NYCRR 500.4), order affirmed, with costs.